WASTED SPACE, WASTED DOLLARS: REFORMING FEDERAL REAL PROPERTY TO MEET 21ST CENTURY NEEDS

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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CONTENTS

WASTED SPACE, WASTED DOLLARS: REFORMING FEDERAL REAL PROPERTY TO MEET 21ST CENTURY NEEDS

THURSDAY, JUNE 5, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:06 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis of Virginia (chairman of the committee) presiding.

Present: Representatives Tom Davis of Virginia, Ose, LaTourette, Souder, Shays, Janklow, Duncan, Schrock, Mrs. Davis of Virginia, Deal, Ms. Miller, Turner, Mrs. Blackburn, Waxman, Owens, Cummings, Kucinich, Tierney, Clay, Ruppersberger, Norton, and Cooper.

Staff present: Peter Sirh, staff director; Melissa Wojciak, deputy staff director; Ellen Brown, legislative director and senior policy counsel; Robert Borden, counsel/parliamentarian; David Marin, director of communications; Scott Kopple, deputy director of communications; Drew Crockett, professional staff member; Teresa Austin, chief clerk; Joshua E. Gillespie, deputy clerk; Robin Butler, financial administrator; Michael Layman, Susie Schulte, and Jason Chung, legislative assistants; Brien Beattie, staff assistant; Phil Schiliro, minority staff director; Phil Barnett, minority chief counsel; Michelle Ash and Tony Haywood, minority counsels; Tania Shand, minority professional staff member; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; Cecelia Morton, minority office manager; and Christopher Davis, minority staff assistant.

Chairman TOM DAVIS. A quorum being present, the Committee on Government Reform will come to order.

I want to welcome everyone to today's hearing on the current conditions of the Federal Government's real property holdings and the reforms that could be implemented to revitalize these extensive assets.

The Federal Government is one of the world's largest real propertyholders. Its real estate portfolio has over 3.2 billion square feet and nearly 525,000 buildings valued at over $328 billion. Literally hundreds of millions of taxpayer dollars are spent each year just to maintain these extensive properties.

Many Federal properties are in disrepair, lack up to date technological infrastructure, are ill equipped for adequate security protection and pose health and safety threats to workers and visitors

alike. Others are no longer suitable to meet the Federal Government's changing mission. For instance, of the 8,000 buildings managed by GSA, more than half are over 50 years old and are in deteriorating conditions that require an estimated $5.7 billion in repairs.

The State Department alone faces an estimated $736 million in repairs for deteriorating buildings. The situation has led the GAO to include vacant, underutilized and deteriorating Federal real property to its high risk list. GAO finds that the magnitude of this problem puts the Government at significant risk for lost revenues and opportunities. Specifically, GAO points to the fact that underutilized or excess property is costly to maintain. The Department of Defense spends between $3-$4 billion annually just for maintenance of unneeded facilities. Also, GAO finds that excess government buildings and land can be put to more effective uses, exchanged for more useful property, or even sold. Clearly, these findings should concern every American taxpayer. Every Member of Congress can likely identify at least one Federal property site in his or her district that is either vacant or deteriorating and in need of revitalization.

The adverse effects to the agency, the workers of that agency and the local community are apparent. Reuse would result in enormous benefits. One such example can be found right here in the District of Columbia. The old General Post Office occupying the entire block bordered by E, F, 7th and 8th Streets, NW, near MCI Center was built in the 1830's and has fallen into disrepair. In fact, by the 1990's this national landmark had become a crack house. Then, through congressional authority granted to GSA, the site was leased to a private entity and transformed into the Hotel Monaco.

As I believe you will see in the GSA Administrator's testimony later this morning, its architectural significance has been preserved and restored, the waste of taxpayer dollars in maintenance has been stopped, and the local community is benefiting from this revitalized area.

We are clearly facing a critical situation in Federal real property management. We must take action to stem this tide of deterioration to Federal buildings and subsequent waste of taxpayer dollars. We can't just throw more money at the problem. Fiscal responsibility requires that we also grant agencies alternative property management authority. We must expand the agency incentives to dispose of unneeded properties and extend their authority to enter into partnerships with the private sector.

Federal agencies are subject to several laws that limit their authority to acquire, manage and dispose of real property. GSA has broad responsibility over Federal real property but its freedom to effectively manage holdings is severely restricted by law. Other agencies, such as State, VA, Defense, have separate authority that gives them limited flexibility to outlease or dispose of their property under specific conditions.

GSA and other agencies need broader management authority in order to efficiently and cost effectively manage their properties. The first step in solving this problem is to require an accurate and updated inventory of all Federal real property and to establish a

real property officer in each agency. Improving asset management is consistent with the President's management agenda.

Next, agencies must be given expanded authority to exchange or transfer property with other Federal agencies. Subleased, unexpired portions of leased property now lease under utilized property. In addition, agencies should be permitted in appropriate circumstances to retain the proceeds from disposition of excess real property to meet the agency's capital asset needs.

In the last Congress, I co-sponsored with Representative Pete Sessions, H.R. 3947, "The Federal Property Asset Management Reform Act of 2002." That contained these reforms and provided for adequate congressional oversight. That bill had bipartisan support in the last Congress and it passed out of this committee. We have to continue to pursue solutions to the crisis in Federal property management disposal.

We had hoped to have the Honorable Pete Sessions as our first witness. He has been an outspoken advocate for providing authority to agencies to enter into public/private partnerships but responsibilities on the House floor this morning prevent him from being here. If he can break away during this hearing, we will give him the opportunity to testify at that point.

Our panel today is a distinguished panel and includes witnesses from government agencies having responsibility for property management as well as from the private sector. We are going to hear from the Honorable Stephen Perry, Administrator of the General Services Administration; Linda Springer, the Controller of the Office of Federal Financial Management of OMB; Bernard Ungar, Director, Physical Infrastructure Issues, GAO; Mark Catlett, Principal Deputy Assistant Secretary for Management, Department of Veterans Affairs; Major General Williams is not here but on his way and Brent Bitz representing the Building Owners and Managers Association and executive vice president, Charles E. Smith Commercial Realty.

I want to thank all our witnesses for appearing before the committee and look forward to their testimony.

Do any other Members wish to make an opening statement? The gentleman from Ohio, Mr. LaTourette.

[The prepared statement of Chairman Tom Davis follows:]

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House of Representatives

COMMITTEE ON GOVERNMENT REFORM

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Opening Statement
Chairman Tom Davis
Committee on Government Reform

"Wasted Space, Wasted Dollars:
Reforming Federal Real Property to Meet 21st Century Needs"

June 5, 2003

Good morning. A quorum being present, the Committee on Government Reform will come to order. I would like to welcome everyone to today's hearing on the current condition of the Federal government's real property holdings and the reforms that could be implemented to revitalize these extensive assets.

The Federal government is one of the world's largest real property holders. Its real estate portfolio has over 3.2 billion square feet in nearly 525,000 buildings, valued at over $328 billion. Literally hundreds of millions of taxpayers' dollars are spent each year just to maintain these extensive properties. Many Federal properties are in disrepair, lack up-to-date technological infrastructure, are ill-equipped for adequate security protection, and pose health and safety threats to workers and visitors alike. Others are no longer suitable to meet the Federal government's changing mission. For instance, of the 8,000 buildings managed by the General Services Administration (GSA), more than half are over 50 years old and are in deteriorating condition that require an estimated $5.7 billion in repairs. The State Department alone faces an estimated $736 million in repairs for deteriorating buildings.

This situation has led the General Accounting Office to include vacant, underutilized, and deteriorating Federal real property on its High Risk Series. GAO finds that the magnitude of this problem puts the government at significant risk for lost revenues and opportunities. Specifically, GAO points to the fact that underutilized or excess property is costly to maintain. For instance, the Department of Defense spends between $3 and 4 billion annually just for maintenance of unneeded facilities. Also, GAO finds that excess government buildings and land could be put to more cost effective uses, exchanged for more useful property, or sold. Clearly, these findings should concern every American taxpayer.

Every Member of Congress can likely identify at least one Federal property site in his or her district that is either vacant or deteriorating and in need of revitalization. The adverse effects to the agency, the workers of that agency, and the local community are apparent. Reuse would result in enormous benefits. One such example can be found right here in the District of Columbia. The Old General Post Office, occupying the entire block bordered by E, F, Seventh and Eighth Streets, NW near the MCI Center, was built in the 1830's and had fallen into disrepair. In fact, by the 1990's, this national landmark had become a crack house. Then, through Congressional authority granted to GSA, the site was leased to a private entity and transformed into the Hotel Monaco. As I believe you will see in the GSA Administrator's testimony later this morning, its architectural significance has been preserved and restored, the waste of taxpayers' dollars in maintenance has been stopped, and the local community is benefiting from this revitalized area.

We are clearly facing a critical situation in Federal real property management. We must take action to stem this tide of deterioration of Federal buildings and subsequent waste of taxpayer dollars. We cannot just throw more money at the problem. Fiscal responsibility requires that we also grant agencies alternative property management authority. We must expand agencies' incentives to dispose of unneeded properties and extend their authority to enter into partnerships with the private sector.

Federal agencies are subject to several laws that limit their authority to acquire, manage, and dispose of real property. The GSA has broad responsibility over Federal real property, but its freedom to effectively manage holdings is severely restricted. Other agencies, such as the Department of State, the Department of Veterans Affairs, and the Department of Defense, have separate authority that gives them limited flexibility to outlease or dispose of their property under specific conditions.

GSA and other agencies need broader management authority in order to efficiently and cost-effectively manage their properties. The first step in solving this problem is to require an accurate and updated inventory of all Federal real property and to establish a Real Property Officer in each agency. Improving asset management is consistent with the President's Management Agenda. Next, agencies must be given expanded authority to exchange or transfer property with other Federal agencies, sublease unexpired portions of leased property, and lease out underutilized property. In addition, agencies should be permitted, in appropriate circumstances, to retain the proceeds from disposition of excess real property to meet the agency's capital asset needs.

In the 107th Congress, I cosponsored with Representative Pete Sessions H.R. 3947, the "Federal Property Asset Management Reform Act of 2002," that contained these reforms and provided for adequate Congressional oversight. That bill had bipartisan support in the last Congress and passed out of this Committee. We must continue to pursue solutions to the crisis in Federal property management and disposal.

We had hoped to have The Honorable Pete Sessions (R-TX) as our first witness. Mr. Sessions has been an outspoken advocate for providing authority to agencies to enter

into public-private partnerships. But, responsibilities on the House floor this morning prevent him from being here. If he is able to break away during the hearing, we will give him the opportunity to testify.

Our panel will include witnesses from government agencies having responsibility for property management, as well as from the private sector. We will hear from Steven Perry, Administrator of the General Services Administration; Linda Springer, Controller of the Office of Federal Financial Management, Office of Management and Budget; Bernard Ungar, Director of Physical Infrastructure Issues at the General Accounting Office; Mark Catlett, Principal Deputy Assistant Secretary, Office of the Assistant Secretary for Management of the Department of Veterans Affairs; Major General Charles Williams, Director of Overseas Buildings Operations at the Department of State; and Brent Bitz, representing the Building Owners and Managers Association and Executive Vice President of Charles E. Smith Commercial Realty.

I would like to thank all of our witnesses for appearing before the Committee, and I look forward to their testimony.

Mr. LATOURETTE. Thank you very much, Mr. Chairman, and thank you for having this important hearing today. You have assembled a distinguished panel.

The issue of underutilized property is one that has vexed us for quite some time. I don't believe there is an easy answer to the question of how we maintain our Federal building inventory to continually meet the needs of the myriad of agencies and departments of the Federal Government in an age of ever declining appropriations to the GSA.

As we proceed in our discussions of this issue, it is vital that we keep in mind that all real property is not the same. The Federal inventory ranges from parklands as small as the grounds of the White House to the Yellowstone in Montana, office buildings in cities as large as New York City and as small as Asheville, NC and landmarks like the Statute of Liberty. While I use those examples as hyperbole, I don't think we should kid ourselves as to what we are really talking about, and that is the enormous inventory of Federal office buildings.

I am pleased Administrator Perry is with us today, As the head of the GSA, he runs the Federal agency that controls the majority of the general purpose office space in the Federal inventory. GSA acts as the government's landlord, controlling approximately 1,900 Federal buildings with 184 million square feet of space and leases approximately 6,400 facilities with 153 million square feet of space. GSA's total inventory of 337 million square feet represents about 10 percent of the total governmentwide inventory but again, that is the vast majority of the Governments general purpose office space.

In addition to its role as the Government's landlord, GSA acts as a central management agency for governmentwide real property. It provides policy guidance to agencies concerning real property matters and disposes of surplus property. GSA also is charged with the construction, alteration and acquisition of general purpose office space for Federal agencies without landholding authority.

It is important to note that a few agencies do have independent landholding authority apart from GSA. They do so only for a limited purpose and limited scope and the types of properties that authority extends to. The Department of Defense, the Veterans Administration and Park Service, for example, do not have the authority to acquire and construct general purpose office space. This authority has rested with the GSA since its creation. At that time, the Congress recognized the need to centralize these functions to reduce waste and ensure that the real property policy proceeded in a coordinated manner.

While I support giving the executive branch enhanced tools to manage its real property inventory, I believe this authority should be limited to those agencies already with similar authorities and in terms of general purpose office space solely within the GSA. The diminution of this authority to every agency that occupies space threatens the ability of the Congress to oversee the use of Federal property and exposes the Government to waste, fraud and abuse and risks the loss of valuable Federal assets.

I agree with my colleagues that each agency has a role to play in the process of determining the best use of the property they oc-

cupy and as such, I support many of the changes that have been recommended. The requirement of an accurate and up to date inventory of real property and the establishment of a real property officer in each agency to coordinate with GSA on the use of each agency's facilities would go a long way to ensure we are maximizing our resources.

I also support the use of public/private partnerships. In the 106th Congress we authorized legislation that would revitalize the Southeast Federal Center and the response to that initiative has so far been very positive.

With ever decreasing appropriations for the repair, alteration and renovation of Federal real property, we must continually be looking for new and innovative ways to pay for this work. However, new authorities to conduct this work should be limited to those agencies with the expertise to use them efficiently and effectively. I believe that only the GSA has that expertise.

I look forward to hearing from the witnesses today. I thank you for having this hearing and I thank you, Mr. Chairman, for your intense interest in this subject. I also want to commend Mr. Sessions for his work not only in the last Congress but in this Congress as well.

[The prepared statement of Hon. Steven C. LaTourette follows:]

Remarks of The Honorable Steven C. LaTourette

Committee on Government Reform and Oversight

Hearing on "Wasted Space, Wasted Dollars: Reforming Federal Real Property to Meet 21st Century Needs"

June 5, 2003

[When recognized]

Thank you Mr. Chairman.

The issue of underutilized property is one that has vexed us for quite some time. I don't believe that there is any easy answer to the question of how we maintain our federal building inventory to continually meet the needs of the myriad agencies and departments of the federal government in an age of ever declining appropriations to GSA.

As we proceed in our discussions of this issue, it is vital that we keep in mind that not all real property is the same. The federal inventory ranges from parklands as small as the grounds of the White House to Yellowstone in Montana, office buildings in cities as large as New York City and as small as Asheville, North Carolina, and landmarks such as the Statue of Liberty.

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I am pleased that Administrator Perry is with us today. As the head of the General Services Administration, he runs the federal agency that controls most of the general-purpose office space in the federal inventory.

GSA acts as the government's landlord, controlling approximately 1,900 Federal buildings, with 184 million square feet of space, and leases space in approximately 6,400 facilities with 153 million square feet of space. GSA's total inventory of

337 million square feet represents about 10% of the total government-wide inventory, but again, this is most of the government's general-purpose office space.

In addition to its role as the government's landlord, GSA acts as the central management agency for government-wide real property. It provides policy guidance to agencies concerning real property matters and disposes of surplus property. GSA also is charged with the construction, alteration and acquisition of general-purpose office space for Federal agencies without landholding authority, and when requested to so by landholding agencies.

It is important to note, that the few agencies that have independent landholding authority apart from GSA, do so only for limited purposes and limited scope in the types of properties that authority extends to. The Department of Defense, Postal Service, Veteran's Administration and Park Service, do NOT have the authority to acquire or construct general-purpose office space.

This authority has rested with GSA since its creation. At that time, the Congress recognized the need to centralize these functions to reduce waste and ensure that real property policy proceeded in a coordinated manner.

While I support giving the executive enhanced tools to manage its real property inventory, I believe that this authority should be limited to those agencies already with similar authorities, and in terms of general-purpose office space, solely within GSA.

The devolution of this authority to every agency that occupies space threatens the ability of the Congress to oversee the use of federal property, exposes the government to waste, fraud and abuse, and risks the loss of valuable federal assets.

I agree with my colleagues that each agency has a role to play in the process of determining the best use of the property they occupy, and as such, I support many of the changes that have been recommended. The requirement of an accurate and up-to-date inventory of real property and the establishment of a real property officer in each agency to coordinate with GSA on the use of each

agency's facilities would go a long way to ensure that we are maximizing our resources.

I also support the use of public private partnerships to enhance the value of the federal inventory. In the 106th, the Congress passed legislation that would revitalize the Southeast Federal Center, using a public private partnership. The response to that initiative has thus far been very positive. However, the role of the federal government in that partnership is very clearly defined and the federal interest is protected.

With ever decreasing appropriations for the repair, alteration, and renovation of federal real property, we must continually be looking for new and innovative ways to pay for this work. However, new authorities to conduct this work should be limited to those agencies with the expertise to use them efficiently and effectively. I believe only the GSA has such expertise. I look forward to hearing from today's witnesses and again thank you Mr. Chairman for your interest in this subject.

Chairman TOM DAVIS. I thank my friend from Ohio who has also taken a leadership role in this on the other committee that has jurisdiction on these issues and look forward to continuing to work with you to resolve this issue as expeditiously as possible.

I will now recognize our ranking member, the gentleman from California, Mr. Waxman.

Mr. WAXMAN. Thank you very much, Mr. Chairman.

We are here today to examine the very genuine, costly and pressing problems the Federal Government has managing its real property, its public buildings and lands. As GAO has indicated by placing this issue on its high risk list, problems abound. Unneeded and under-used buildings are in the Federal inventory. Some buildings are literally falling apart. Accurate data on Federal real property is hard to obtain from agencies and costly leasing of office space is too often the quick answer.

These are far from trivial problems. In fact, they are costing the Federal Government and the American taxpayers billions of dollars. We are spending $3-$4 billion a year on buildings we don't need. In addition, the amount of money required to bring needed Federal facilities up to minimally acceptable standards is truly staggering, $63 billion at the Department of Defense, $11 billion at Interior, close to $6 billion at GSA facilities. We probably can't get reliable data but we could be looking at $100 billion in needed repairs.

One approach to specifically addressing the problem of the maintenance of Federal buildings is to provide agencies the ability to engage in public/private partnerships on specific properties. The basic idea is that the Government provides the property, the private sector provides capital for improvements and the property is then managed for the benefit of both parties.

I know that Chairman Davis supports this approach and therefore, in the last Congress I worked with him to develop a bipartisan bill on property reform that built on this concept and gave agencies new tools to modernize Federal property management. The bill gave agencies the authority to sublease or outlease vacant space or land use and to use the proceeds to make other capital asset improvements. In addition, it contained important safeguards to ensure local community input is given appropriate consideration.

Last year, the bill was never considered by the full House. It was referred to the Transportation and Infrastructure Committee. While that committee seems to agree in principle with many of the approaches the bill took, it had jurisdictional concerns with the way it was drafted and never reported out the measure. Continuing staff discussions on the issue in this Congress have so far failed to resolve these jurisdictional concerns which seemed to boil down to whether we amend the Federal Property Administrative Services Act of 1949 over which we have jurisdiction or the Public Buildings Act of 1959 over which the Transportation Committee has jurisdiction.

I hope we can surmount these procedural and jurisdictional issues. I hope we can work together to make appropriate revisions to the substance of the legislation to address issues raised by the Congressional Budget Office and others.

Mr. Chairman, we have a widely recognized and quite serious problem with the management of Federal real property. I am ready to work with you, with Representatives Norton and LaTourette, the Chair and ranking members of the Public Buildings Subcommittee of the Transportation and Infrastructure Committee to find a solution to this impasse.

[The prepared statement of Hon. Henry A. Waxman follows:]

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Statement of Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Hearing on
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June 5, 2003

Mr. Chairman, we are here today to examine the very genuine, costly, and pressing problems the federal government has managing its real property – its public buildings and lands. As GAO has indicated by placing this issue on it "high risk" list, problems abound. Unneeded and under-used buildings are in the federal inventory. Some buildings are literally falling apart. Accurate data on federal real property is hard to obtain from agencies, and costly leasing of office space is too often the quick answer.

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-over-

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Mr. Chairman, we have a widely recognized and quite serious problem with the management of federal real property. I am ready to work with you, Mr. Chairman, and with Representatives Norton and LaTourette, the Chair and Ranking member of the Public Buildings Subcommittee of the Transportation and Infrastructure Committee, to find a solution to this impasse.

Thank you.

Chairman TOM DAVIS. I thank my friend for his statement. I will be introducing some legislation shortly on that and again, will work with you to bring to our committee quickly. We have to resolve these jurisdictional disputes between the committee because of this issue every day millions of taxpayer dollars are being used to keep up buildings we can't use. It is a waste and we are going to move quickly on that. I appreciate my friend's pledge to work with us.

Any other opening statements at this point? The gentleman from Ohio.

Mr. TURNER. This certainly is a wonderful initiative that is going to result in significant savings to the Federal Government and sounds as if it will constitute responsible management of Federal property.

One of the concerns I have concerning this proposal, and some of the examples we have received, is the impact it might have on urban cores. As we look to buildings that are dilapidated and need to either be renovated or abandoned we must not have a migration of Federal jobs to the suburbs. Some of the examples we have here include a statement of a suburban location that would be more desirable for prospective Federal tenants and probably cheaper. We all know that suburban locations are going to be cheaper but there are also Federal interests in making certain we maintain our urban core.

Being a former mayor, we know that through Federal mandated programs, cities are significantly burdened with issues of schools, Brownfields, social services, special needs populations, public housing, environmental mandates and infrastructure burdens that support an entire urban area. I am interested as to how the process of relocation might also include some interest in looking to supporting the urban core.

Chairman TOM DAVIS. Thank you very much.

Any other opening statements? The gentleman from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

The Federal Government is one of the world's largest propertyowners with more than 400,000 buildings and 500 million acres of land. In fiscal year 2001, the Federal Government's real property assets were valued at $328 billion, with the Government spending billions annually to maintain its properties. More than 30 agencies control the real property assets.

In January 2003, the Government Accounting Office designated Federal real property as new, high risk area in its report "High Risk Series, Federal Real Property." The GAO found that many assets are in an alarming state of deterioration with an estimated restoration and repair cost to be in the tens of billions of dollars. The property is managed with outdated technology and business models dating back to the 1950's. GAO further found that compounding these problems are the lack of reliable, government-wide data for strategic asset management and the costs and challenges of protecting these assets against potential terrorism.

The General Services Administration has broad responsibility over Federal property including the sale of surplus Federal property to State and local governments, non-profit organizations, private individuals and companies. This authority is given to GSA

through the Federal Property and Administrative Services Act. During the 107th Congress, the Federal Property and Asset Management Reform Act passed out of this committee by voice vote. That bill would have given agencies the authority to sublease vacant space or land and use the proceeds to offset the cost of holding such property and to make other capital asset improvements.

Given the rise of the Federal deficit and the numerous unfounded mandates from Congress like the No Child Left Behind Act, I hope that similar legislation can be introduced to enhance Federal asset management. The Government should not be wasting billions of dollars. Federal managers of these properties confront a multitude of challenges securing the property due to the threat of terrorism and problems managing deteriorating facilities.

I look forward to hearing from our colleague, Pete Sessions, today and all of our witnesses as we explore the best ways to ensure the effective and economical use of Federal and real property. I have said many times there is one that Republicans and Democrats agree on and that is that peoples' tax dollars should be spent effectively and efficiently.

I thank you for this hearing.

Chairman TOM DAVIS. Any other statements? Mr. Janklow.

Mr. JANKLOW. Thank you very much, Mr. Chairman. I am going to be extremely brief.

Looking at the two page precis that preceded this hearing, you have one paragraph that says it all. Federal agencies are subject to several laws that limit their authority to acquire, manage and dispose of real property. The GSA has broad responsibility over Federal real property but its freedom to effectively manage buildings is severely restricted. Other agencies such as DOD, the Department of State, the Veterans Administration have separate authority that gives them limited flexibility to outlease or dispose of their property under specific conditions.

The problem we have is everybody in the Congress wants to run the executive branch. Everybody wants to micromanage, everybody wants to tell everybody how to do everything. No one has the freedom to run this like a $3 billion real estate enterprise ought to be run. The net result is what we have today. We can entitle any bill we want with all the grand titles about reform, reform, reform, but the reality is unless we are really willing to reform something, unless we are willing to turn loose people to make independent, sensible, discretionary decisions, unless we turn them loose to make them property asset managers, we are going to continue to have the mess we have and for the next 50 years, they will be holding hearings discussing things and what we ought to do to fix the Federal property.

Thank you for having this hearing today, Mr. Chairman.

Chairman TOM DAVIS. Thank you. I am glad we have a former Governor on the committee because I think you bring that executive perspective to this.

The gentleman from Ohio.

Mr. LATOURETTE. I was out of the room when Mr. Waxman spoke and I listened to Mr. Cummings as well. I want to make one comment so the record is clear. H.R. 3947 passed by a voice vote out of this committee during the last Congress but it was never re-

ported by the Government Reform Committee because of some scoring questions, so there was not a delay in the Transportation and Infrastructure Committee because it wasn't actually reported out of this committee. I just want that to be clear.

Chairman TOM DAVIS. Again, we look forward to working with you. You hold a critical subcommittee chairmanship over there and time is important. I think the testimony today is going to show us that everyday that goes by, we are wasting millions of dollars. We have a unique opportunity in this Congress to give our agencies the appropriate flexibility to dispose of these in some innovative ways. There are literally billions of savings over the years that we can make.

Any other opening statements? If not, let us move to our distinguished panel. Mr. Perry, thank you so much for being with us. You have been very innovative, very proactive in this, you have some great ideas. Your entire testimony is a part of the record, as are all the others. I would like you to try to limit your testimony to 5 minutes. It looks like we are not going to have that early vote, so we may be able to move straight through and then do questions. Your light after 4 minutes will turn yellow and that gives you 1 minute to sum up and when it is red, your time is up.

I have to swear you in because that is the way the committee works.

[Witnesses sworn.]

Chairman TOM DAVIS. Thanks for being with us, Commissioner Perry.

STATEMENTS OF STEPHEN PERRY, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION; LINDA SPRINGER, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; BERNARD UNGAR, DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, GENERAL ACCOUNTING OFFICE; MARK CATLETT, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR MANAGEMENT, DEPARTMENT OF VETERANS AFFAIRS; MAJOR GENERAL CHARLES WILLIAMS, DIRECTOR, OVERSEAS BUILDINGS OPERATIONS, DEPARTMENT OF STATE; AND BRENT BITZ, EXECUTIVE VICE PRESIDENT, CHARLES E. SMITH COMMERCIAL REALTY, ON BEHALF OF THE BUILDING OWNERS AND MANAGERS ASSOCIATION

Mr. PERRY. I also want to thank you for holding this hearing to bring more focus to what obviously is an urgent need for Congress to pass legislation which will enable the Government to use authorities which will enable us to be more effective in the management of real property assets. It is the only way in which those of us who have that responsibility at least from the agency point of view can effectively carry out our stewardship of this Nation's vast inventory of real property assets, most of which are used to provide work space for Federal workers.

Since 1999, GSA has strongly supported congressional proposals for legislative reform to authorize effective real property management practices. We believe this is the most viable option at our disposal to address the longstanding and extraordinary and perhaps emerging crisis we are facing. It was clear from opening comments

made by members of this committee a moment ago that this is well understood. The issue is where do we go from here, how do we address this longstanding, extraordinary problem we have.

The problem manifests itself in the form of a huge and growing multibillion dollar backlog of deferred maintenance which is resulting in significant deterioration, under utilization and vacancy of many Federal buildings. If we continue to let this problem fester and grow, it will surely have an unacceptable, adverse impact on our Government's ability to function efficiently and effectively.

GSA which manages only about 10 percent of the Government's total space has a backlog of deferred maintenance of $5.7 billion. Looking at the Federal Government as a whole, this figure is estimated to be well over $100 billion.

In addition to GSA's support of legislative action, the Department of Defense, Department of Veterans Affairs, Department of State, NASA and many other Federal agencies have strongly advocated for congressional passage of real property reform legislation. Also, as we know, the General Accounting Office issued and conducted studies which concluded that this extraordinary problem is not being addressed adequately. This is due in large part to the lack of authority in agencies to use effective real property management practices. My written statement for the record gives the details and rationale that we have for the kinds of property management practices we believe this Congress should enact and I will just mention them and talk about one in particular.

They include the use of public/private partnerships to enable private sector funds to be used to help address the backlog of deferred maintenance; they include out leasing so that the Government could lease to private organizations vacant space not needed for Federal purposes, subleasing and exchange and sale of real property and financial incentives to assist agencies in the disposal of real property that they no longer need for agency purposes.

For purposes of this testimony, I will just focus on public/private partnerships. This would be modeled on the common practice in the commercial sector where an owner of property leverages their equity in the property to secure funding from private sources to help cover the cost of renovating a deteriorated building. The GAO report in 2001 recommended that a pilot project be authorized where this approach could be tested further. While Congress did not authorize that pilot project, certainly we have lots of evidence that public/private partnership in the Federal Government can work. It is being done at DOD, at VA, State, soon at NASA and there will be many examples we could cite and some are cited in my testimony regarding that.

GSA has even used public/private partnerships successfully. You may know that under Section 111 of the National Historic Preservation Act we have limited authority to use this approach as it would relate to a historical building and a historical building which has been determined to have no further Federal need. In those very limited situations, we have used this authority successfully. One example of it is shown in the exhibits we have over there, the top tier of building show the old Tariff Building when it was mothballed, when were spending millions of dollars to keep it in that moth-balled condition. We used the authority for public/pri-

vate partnership to convert that with the private sector partner into the facility you see on the right. Other examples abound. My point is this is not a new process that isn't tried and true. We know we can do it.

Another example at GSA is the case of the Southeast Federal Center along the Anacostia River. There was special legislation provided that enabled us to use public/private partnership to develop that site and that project is proceeding.

The bottom tier of slides is another facility which happens to be near Seattle, WA which is an example of another site. The left slide shows a deteriorated Federal facility we now have which could be renovated into something you see on the right.

In conclusion, I will agree with the sentiment of the comments made in the opening remarks, that we do have a very extraordinary problem, as I said, perhaps an emerging crisis. It will only be addressed successfully with an extraordinary solution. This means Congress and the administration will have to be aggressive and creative and focused on results to overcome the many obstacles that to this point have impeded our progress in addressing this problem.

We look forward to working with you and the members of the committee in addressing them.

[The prepared statement of Mr. Perry follows:]

STATEMENT OF

STEPHEN A. PERRY

ADMINISTRATOR

OF

GENERAL SERVICES

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

JUNE 5, 2003

Chairman Davis and Members of the Committee:

Thank you for inviting me to testify today concerning Federal real property management. In my testimony before this distinguished Committee last year on the need for Real Property Reform, I discussed the need for appropriate and up-to-date management practices and financial incentives for more effective property management. As you know, since 1999, the General Services Administration (GSA) has strongly supported Congressional passage of real property legislative reform. We recognized then that public-private partnership (PPP) type authorities and financial incentives are required for effective property management in the 21st Century. We are pleased that the General Accounting Office (GAO) has expressed support for similar legislative remedies in its January 2003, High-Risk designation for Federal real property.

Accordingly, the GSA remains committed to working with this Congress to secure passage of legislation that allows existing real property management statutes to more accurately reflect the current

needs of the Government and emerging practices of the commercial marketplace. Public-private partnerships will reduce the costs – both in capital outlays and in productivity – associated with deteriorated, vacant and underutilized space in existing Federal real property. Such legislation would also help with other challenges, such as the advancing age of Federal buildings, the increasing need to secure these facilities against terrorism, and striving to make Government structures healthy and environmentally sound for employees.

Mr. Chairman, at this point I would like to introduce the GSA team with me today, which includes Mr. Paul Chistolini, Deputy Commissioner, Public Buildings Service, and Mr. David Bibb, the Deputy Associate Administrator for Real Property in GSA's Office of Governmentwide Policy.

Additionally, I would like to thank the Committee and its predecessor for their efforts to make Federal property management reform a priority. During the past several years, the Committee has provided the opportunity to discuss the problems, policies, and procedures surrounding the management and disposal of Federal assets.

We appreciate your continued interest in and support of GSA's efforts to secure appropriate management practices like PPP's and other financial incentives. We look forward to working with the Members of this Committee and others in Congress to pass effective real property legislation.

In its report released on January 30, 2003, entitled "High-Risk Series, Federal Real Property," GAO designated the Government's real property inventory as a High-Risk program. I understand that the designation "High-Risk" is the strongest term used by GAO to communicate the growing concern regarding a programmatic issue, and the importance of taking corrective action immediately. We agree with virtually all of GAO's conclusions. In fact, I believe that our legislative initiative generated several years ago recognizes many of these same problems.

Many Government buildings are no longer aligned with or respond to agencies' changing missions. The Government's assets should be realigned with the agency missions, and should consider the requirements of the future Federal role and workplace. These actions

would be critical to improving Federal Government performance and ensuring accountability within expected resource limits. Much of the Government's vast and diverse portfolio reflects an infrastructure that is based on business models and technology of the 1950's. GSA, which has only about 10 percent of the Government's space, suffers from a backlog of building maintenance, repairs, and alterations that are estimated at approximately $5.7 billion. Looking at this growing problem from a governmentwide perspective, according to the High-Risk Series report, this figure can be easily projected to be well over $100 billion governmentwide.

Moreover, in GAO's July 2001, report entitled "Public-Private Partnerships (PPP), Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships," it was recommended that the Administrator of General Services should seek statutory authority to use PPP's as a real property management tool to achieve the best economic value for the Federal Government, and to show the benefits of commercial expertise and resources under this type of business arrangement. The report also mentioned that similar authorities such as enhanced-use leasing have already been granted

to the Department of Veterans Affairs (VA) and the Department of Defense (DOD).

There are other Federal agencies that have received similar PPP type authorities such as United States Postal Service and just recently the National Aeronautics and Space Administration. Furthermore, limited one-time PPP type authorities have been granted to GSA and other agencies over the course of 20 plus years.

The success of Federal agencies in their effective use of enhanced-use leasing authorities provides a complete and accurate assessment of the benefits available to the Government. For example, DOD has successfully completed 16 projects using its base housing privatization authority with another 58 projects either in the solicitation or planning process. In fact, DOD plans to rehabilitate a majority of its multi-family housing stock using PPP type arrangements. VA has already completed 27 enhanced-use leasing type projects. GSA also has a PPP project underway at the Southeast Federal Center that was made possible through special legislation. Another candidate that GSA believes would benefit from PPP is the Federal Center

South in Seattle, Washington. As the Committee can see from the graphics provided, this building could be redeveloped for a combination of private sector and Federal use. These examples, as well as other successes clearly reinforce the case for making PPPs.

Even though the need for PPP type authority is essential to real property reform legislation, it is by no means the only reform measure that Congress should consider.

Federal property managers should not be tied to outmoded business practices. Instead, they should be free to pursue proven common-sense, business-like practices and techniques to manage property holdings strategically. Reform legislation should enhance existing authorities and provide several new authorities. These include:

- Promoting the exchange/sale of real property where an exchange or transfer of property within the Federal Government could be made, or entering into agreements with non-Federal entities to exchange or sell property as a means of acquiring replacement property better suited for mission purposes.

- Subleasing by allowing the sublease of vacant portions of government-leased property.
- Outleasing where partnerships could be entered into, as discussed above, and outlease to the private sector property that must remain in Federal ownership. Underutilized portions of non-excess government-owned property could also be outleased to promote the full use and optimum performance of the property. The Government would benefit from private sector resources and expertise to repair, renovate, and construct facilities. To protect the Government's interest and those of the private sector, public private-partnership arrangements would be reviewed by the Congress, and undergo a biennial review by the General Accounting Office.

- In addition, agencies could access recoverable equity in disposed of, underused or obsolete Federal property and apply the proceeds toward meeting other on-going facilities needs. Currently, resources must be diverted to hold underused and unproductive property when in fact those resources could be used to improve other required facilities. This has resulted in

the inability to optimize property and has contributed to the retention of property that has little or no functional value. The bulk of proceeds from real property transactions should be retained and the funds should be used to offset direct and indirect real property transactional costs in meeting capital needs.

In addition to the aforementioned legislative reforms, landholding agencies should also consider implementing a number of measures to improve the management of real property.

Effective property management requires that agencies consider all phases of the life cycle (i.e., acquisition, use, and disposal) of property. A strategic perspective should be incorporated into property management decisionmaking during all phases of the property's life cycle. Specifically:

- Asset Management Principles (AMP) to emphasize the life cycle of the asset. These principles would serve as the baseline for agencies in decisionmaking processes.

- Strategic Real Property Planning, where landholding agencies would develop real property management plans for their real property through all life cycle phases, ensuring consistency with agency missions, strategic goals, and objectives.
- A Senior Real Property Officer to oversee the management of real property in accordance with strategic objectives, to follow the Asset Management Principles, to prepare real property management plans, and to generally coordinate agency real property functions and processes.
- A Governmentwide Real Property Information Database to improve coordination of real property planning and management by using a database of reliable information regarding agencies' properties. Agencies would maintain and use the information in the database to support sound property management decisions internally and governmentwide.

At this juncture, Mr. Chairman, I would like to emphasize two significant points.

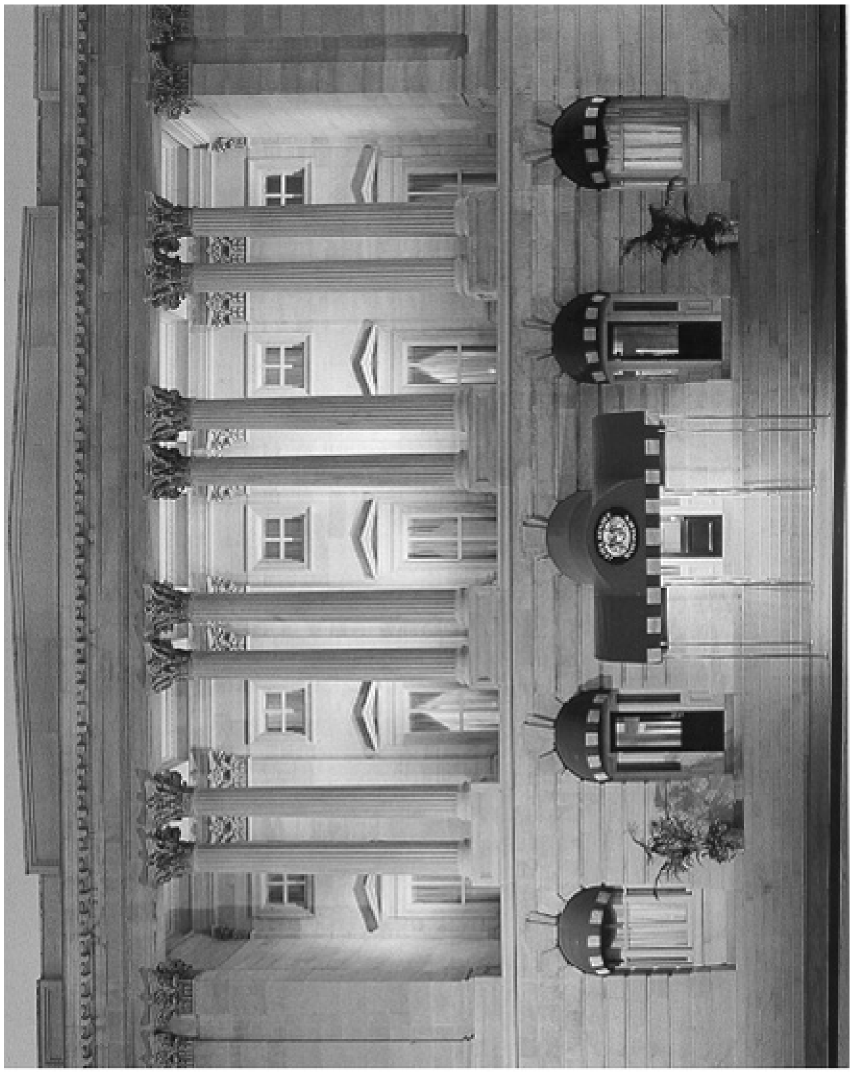
First, landholding agencies must be held responsible for the proper management of Federal resources. To this end, they must continue to keep the Congress, the President and the public properly informed through existing oversight procedures. These include the submission of agency strategic plans, asset management plans, annual budget submissions, and the review by Congress when a major project utilizes the public-private partnership arrangements that I have discussed.

Secondly, any reform measure should preserve existing statutory authorities and responsibilities of Federal landholding agencies and their programs. The new authorities we have discussed should complement existing authorities and responsibilities.

In conclusion, I must emphasize that improving Federal property management through the use of PPP's and other management tools and incentives is critical to improving the ability to meet mission requirements. Meeting those requirements will help improve performance results. GAO has identified the condition of the nation's Federal facilities as a high-risk to the Government's very ability to

fulfill its vital missions. Without major change, our performance will suffer and our ability to compete for talent will be negatively impacted due to substandard working conditions. I hope that Congress will seriously - and favorably – consider the important reforms I have outlined. We look forward to working with you on this very critical issue.

Mr. Chairman, this concludes my statement. I am happy to answer any questions you or other Committee Members may have.

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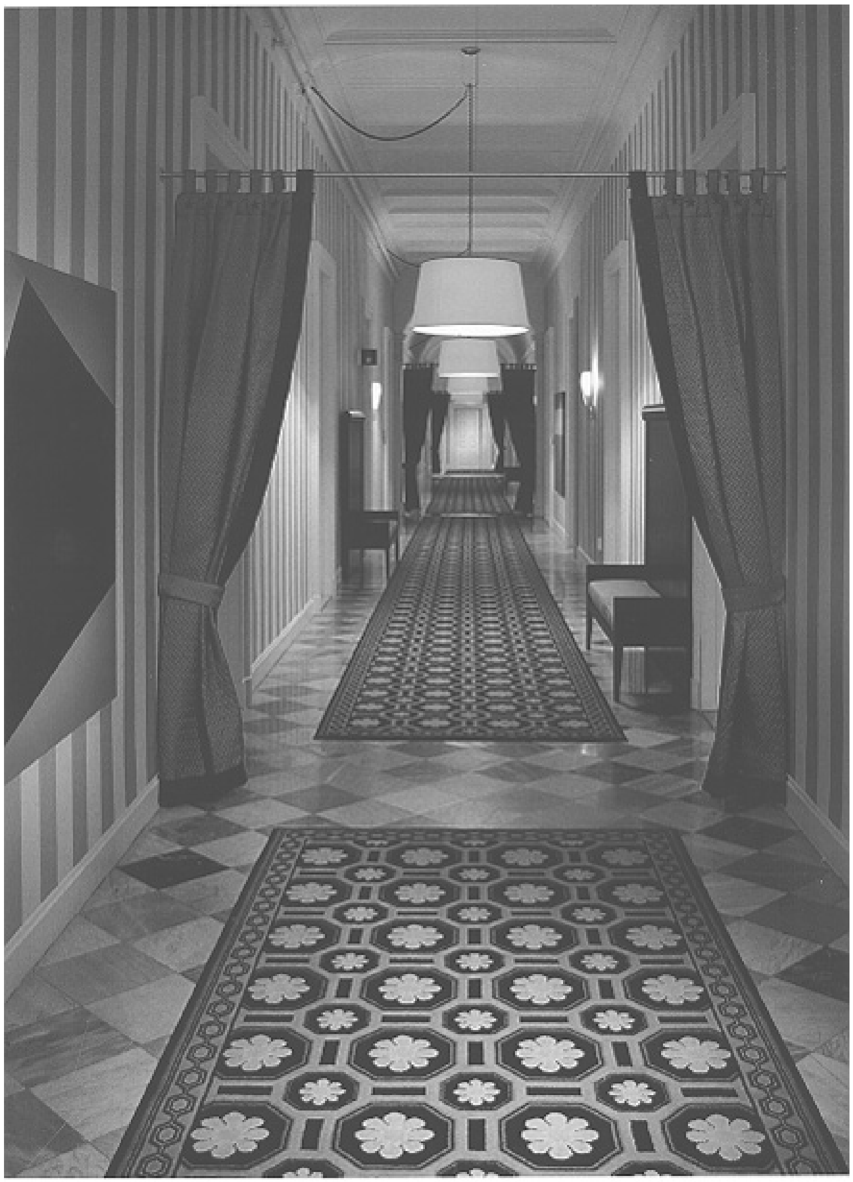


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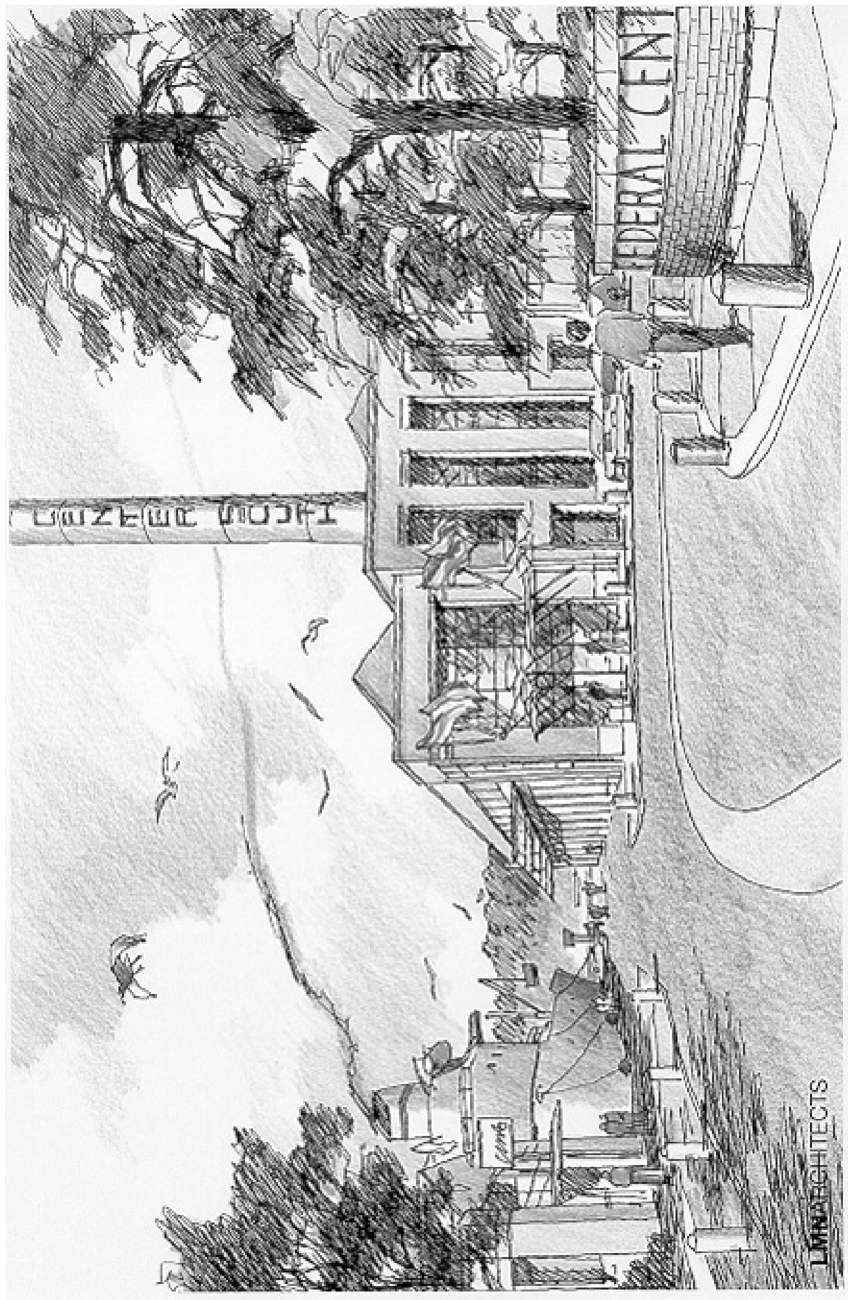
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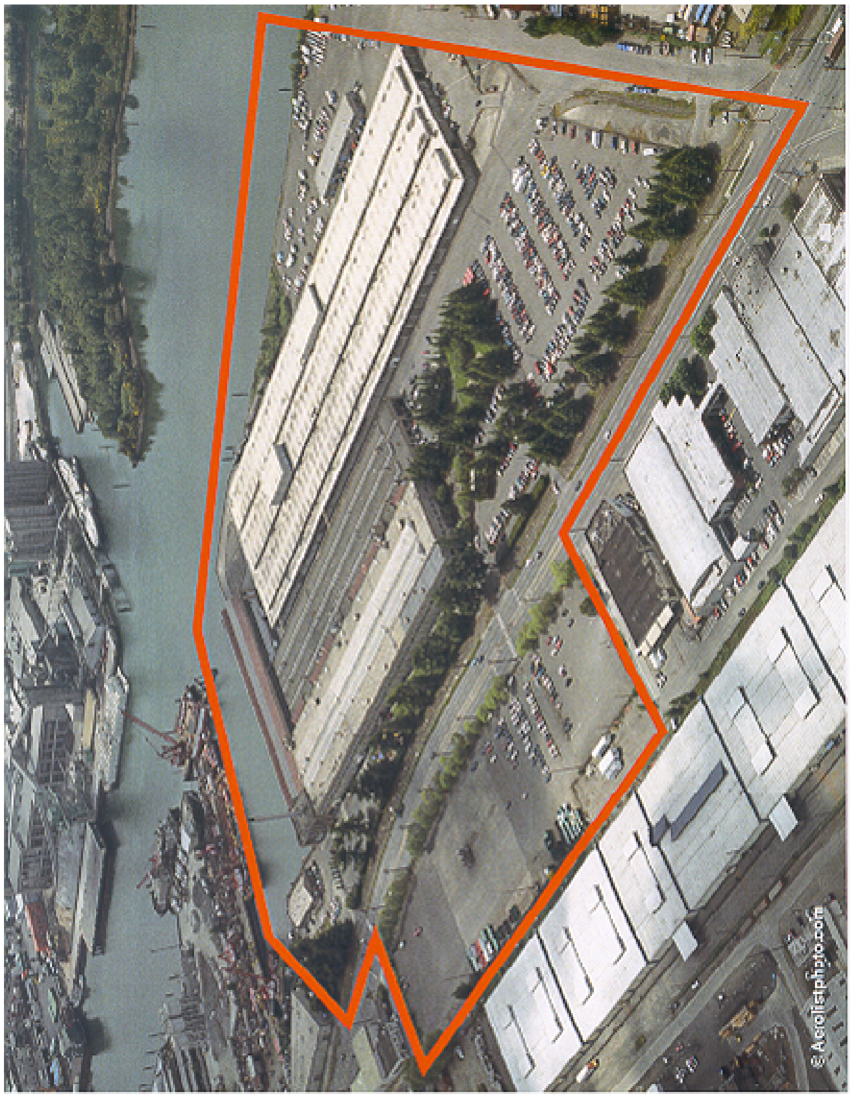
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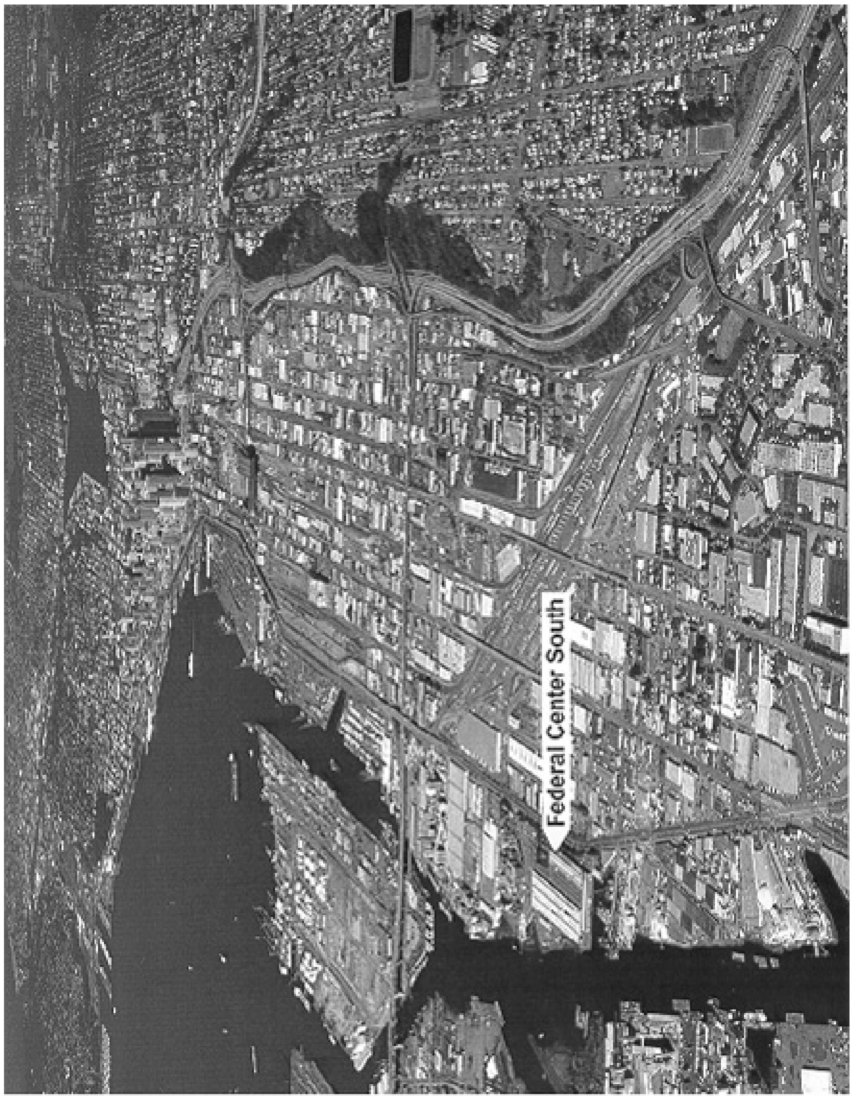
Federal Center South

Chairman TOM DAVIS. Thank you very much.

Ms. Springer, thanks for being with us.

Ms. SPRINGER. Thank you, Mr. Chairman, for asking me to testify today.

The administration's Asset Management Initiative is critical to meeting our stewardship responsibilities in improving the overall management of the Federal Government. I would like to share with you the following excerpt on asset management.

"There is substantial evidence of weakness in the Federal Government's management of assets including acquiring and retaining unneeded and poorly performing assets, excess holding costs and ineffective asset disposal. Agencies are hampered in their efforts to identify and correct these problems by lack of strategies, procedures, and incentives to manage a wide range of assets."

This could very easily have been taken from the GAO report in the high risk series but in fact it was included in the 2002 Federal Financial Management Report published by the Office of Management and Budget. Accordingly, we agree wholeheartedly with GAO's addition in their January 2003 Real Property Management addition to the High Risk list update. This is a confirmation of the administration's efforts beginning in 2001 to address this issue.

Much of the Government's real property no longer serves the needs for which it was acquired in the first place. The current laws and regulations make it difficult if not impossible for agencies to maximize the use of its real property investments. For these reasons, the administration has taken several important steps to improve the Government's asset management. We are making improved asset management a part of the President's management agenda. We expect the results of this new focus to include expanded asset portfolio tracking and analysis capabilities, comprehensive asset management strategies, increased sales of underperforming assets and reduced maintenance and operating costs.

GAO recently credited the administration for proposing several reform efforts and other initiatives to address asset management challenges. The administration proposed in the last Congress, as part of the Managerial Flexibility Act, legislation to establish these practices and provide the incentives and tools necessary to bring about sound asset management.

Our proposal reforms the Federal Property Administration Services Act of 1949 by addressing all phases of an asset's life cycle and would support an integrated portfoliowide approach for overall property management decisionmaking. This proposal would not alter existing authorities for properties under the current Property Act structure, nor would it alter authorities that were granted under other statutes. Rather, it would provide incentives and flexibility in addition to those authorities and grant agencies the necessary tools to manage their assets more effectively and efficiently. Absent these authorities, we will be unable to improve sufficiently the asset management practices currently in place throughout the Government. Even if we improve the data we have and condition of our assets, we will not have a sufficient range of options with which to execute the best asset management solutions for specific situations.

In the spirit of the administration's initiative, some agencies have moved aggressively to collect data about their asset management practices even now but better information is just the first step. We are asking agencies in the upcoming budget process to provide us with concrete examples of what they might do to maximize the use of their property with these new authorities.

One of the hurdles to enactment of the administration's proposal is the high cost attributed to it by the Congressional Budget Office. We believe that CBO's scoring of the property sales provision ignores the near certainty that agencies would sell almost no excess property without the incentive provided by the administration's proposal. Therefore, the additional spending scored by CBO should be offset by the additional property sales receipts that would be generated by the incentives provided in the administration's proposal.

In any event, we believe that the issues raised by CBO can be addressed by making proceeds from any property sale or from the exercise of new public/private partnership authorities granted under the proposal subject to appropriations.

Mr. Chairman and members of the committee, I ask for your support for this common sense proposal. If we look to the examples set for us recently in the area of erroneous payments, we can see that the combined work of the executive and legislative branches can enhance our management improvement efforts considerably.

The administration launched an initiative to reduce erroneous payments but it was only able to reach its full impact when this committee crafted and shepherded through the legislative process legislation that would require erroneous payment reduction efforts of all programs and activities administered by the Federal Government. This is the kind of partnership that I hope we can have in the area of asset management.

The administration has an initiative to improve our stewardship over the Government's holdings. With your help, we can provide Federal agencies with the tools they need to meet their asset management responsibilities.

This concludes my statement. I look forward to answering your questions and working with the committee.

[The prepared statement of Ms. Springer follows:]

Statement of
The Honorable Linda M. Springer
Controller, Office of Federal Financial Management
Office of Management and Budget
before
The Committee on Government Reform
U.S. House of Representatives
June 5, 2003

Thank you, Mr. Chairman, for asking me to testify today. The Administration's asset management initiative is critical to meeting our stewardship responsibilities and improving the overall management of the Federal government.

I would like to share with you the following excerpt on asset management:

> *[T]here is substantial evidence of weaknesses in the Federal Government's management of assets, including acquiring and retaining unneeded or poorly performing assets, excess holding costs, and ineffective asset disposal. Agencies are hampered in their efforts to identify and correct these problems by the lack of strategies, procedures, information, and incentives needed to manage a wide range of assets.*

This could very easily have been taken from the General Accounting Office's (GAO) most recent High-Risk Series. In fact, it was included in the 2002 Federal Financial Management Report published by the Office of Management and Budget (OMB). Accordingly, we agree wholeheartedly with GAO's recent decision to add real property management to its biannual High-Risk list. As GAO wrote, "Many [of the Federal government's] assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Furthermore, many assets are in an alarming state of deterioration; restoration and repair needs are estimated by agencies

to be in the tens of billions of dollars." It helps us address major challenges when our colleagues at GAO also recognize and call attention to the severity of the problem.

To understand the magnitude of this problem, consider the following data. According to its most recent financial statements, the Federal government owns $325 billion in Property, Plant and Equipment and $192 billion in Inventories and Related Property -- over half a trillion dollars. This is only the property portion of assets reflected on the federal government's balance sheet. It does not include Defense property, immense land holdings, or other holdings which are reported as stewardship assets. For instance, the Federal Government is the steward of 28% of the United States' current land mass. It also possesses historic sites and structures, monuments, memorials, cemeteries, as well as valuable items in its museums and libraries.

Much of the Government's real property no longer serves the needs for which it was acquired in the first place. But current laws and regulations make it difficult, if not impossible, for agencies to maximize the use of its real property investments. Some examples:

- The Mendel Rivers Federal Building is a contaminated, unoccupied 150,000 square foot building (asbestos) in Charleston, South Carolina that requires demolition and site redevelopment. But because of the Federal laws and regulations, the government has been experiencing great difficulty and delays in selling, leasing or developing the property through a public-private partnership. Costs continue to be incurred to maintain the property with no revenues generated. The building is in a highly desirable location with a strong potential for private sector demand.

- The Internal Revenue Service (IRS) currently has a 375,000 square foot highly-secured building on a 37 acre site in need of repairs in Andover, Massachusetts. The agency leases an additional 336,000 square feet in the area. IRS wants to

consolidate its operations from numerous locations into its existing highly desirable site. But because of Federal laws and regulations, it is unable to do so.

- The General Services Administration maintains four functionally obsolete buildings totaling 200,000 square feet of office space on a 39 acre site in an industrial area in Seattle, WA. It is prohibited by law from improving the buildings with business-like strategies that could result in benefits to Federal tenants and the local community.

In well-run companies, meeting stewardship responsibilities for assets in their custody is of paramount importance. Unfortunately, in the Federal government that is not typically the case. The Federal government often does a poor job managing its assets. This is particularly true with property assets.

For these reasons, the Administration has taken several important steps to improve the government's asset management. We are making improved asset management a part of the President's Management Agenda. The expected results of this new focus include expanded asset portfolio tracking and analysis capabilities, comprehensive asset management strategies, increased sales of underperforming assets and reduced maintenance and operating costs. GAO recently credited the Administration for "proposing several reform efforts and other initiatives" to address asset management challenges.

As a precursor to this new focus, we asked agencies to report their management practices for physical and financial assets. Information related to both retention and disposal processes was reviewed to provide insight into the use of best practices in asset management throughout the Executive Branch. The intended result was a baseline from which a framework for enhanced asset management could be established. However, because neither basic data about agency assets nor performance metrics that assess agency asset management practices is in widespread use, agencies were generally unable to provide useful information through this exercise.

The Administration proposed in the last Congress, as part of the Managerial Flexibility Act, legislation to establish these practices and to provide the incentives and tools necessary to bring about sound asset management. Our proposal reforms the Federal Property and Administrative Services Act of 1949 (Property Act) by addressing all phases of an asset's life cycle and would support an integrated portfolio-wide perspective for overall property management decision-making. The bill would provide incentives for managing Federal property by authorizing agencies to: (1) exchange or transfer unneeded property with other Federal agencies; (2) sublease unexpired portions of government-leased property; and (3) outlease assets that must remain in Federal ownership, including underutilized portions of non-excess property to ensure full utilization. This proposal would not alter existing authorities for properties under the current Property Act structure nor would it alter authorities that were granted under other statutes. Rather, it would provide incentives and flexibility in addition to those authorities and grant agencies the necessary tools to manage their assets more effectively and efficiently.

Absent these authorities, we will be unable to improve sufficiently the asset management practices currently in place throughout the government. Even if we improve the data we have on the extent and condition of our assets, we will not have a sufficient range of options with which to execute the best asset management solutions for specific situations.

In the spirit of the Administration's initiative, some agencies have moved aggressively to improve their asset management practices. For instance, the National Park Service is examining its management of the entire life cycle of all its assets. Its goals for FY 2003 include:

- Developing a facility inventory of National Park Service maintained holdings;
- Performing assessments to determine the condition assets are in and the costs to maintain, replace, or repair them; and
- Establishing a baseline facility condition index (FCI) for all assets, which provides an overall rating for the condition of assets.

The Service is employing a Facility Management Software System, a comprehensive asset management tool to process the asset data the Service is collecting. If it meets these goals, the National Park Service will have information it has never had before which it can use to improve dramatically its asset management practices.

But better information is just a first step. With the authorities the Administration has requested, the Park Service could have more options to choose from in deciding how to act on the information it is collecting. We are asking agencies, in the upcoming budget process, to provide us with concrete examples of what they might do to maximize the use of their property through with these new authorities.

One of the hurdles to enactment of the Administration's proposal is the high cost attributed to it by the Congressional Budget Office (CBO). We believe that CBO's scoring of the property sales provision ignores the near certainty that agencies would sell almost no excess property without the incentive provided by the Administration's proposal. Therefore, the additional spending scored by CBO should be offset by the additional property sales receipts that would be generated by the incentives provided in the Administration's proposal. In any event, we believe that the issues raised by CBO can be addressed by making the proceeds from any property sales or from the exercise of new public-private partnership authorities granted under the proposal subject to Appropriations.

Mr. Chairman and Members of this Committee, I ask for your support for this common sense proposal. If we look to the example set for us in the area of erroneous payments, we can see that the combined work of the Executive and Legislative Branches can enhance our management improvement efforts considerably. The Administration launched an initiative to reduce erroneous payments. But it was only able to reach its full impact when this Committee crafted and shepherded through the legislative process legislation that would require erroneous payment reduction efforts of all programs and activities administered by the Federal Government.

This is the kind of partnership I hope we can have in the area of asset management. The Administration has an initiative to improve our stewardship over the Government's holdings. With your help, we can provide Federal agencies the tools they need to meet their asset management responsibilities.

Chairman TOM DAVIS. Excellent. Finished right on time. Great debut before the committee.

Mr. Ungar, see if you can follow Ms. Springer's lead.

Mr. UNGAR. Mr. Chairman, this is going to be a hard act to follow.

We are pleased to be here to assist the committee as well as Mr. LaTourette's subcommittee which we have worked with before, to address this very important problem of Federal real property. For the reasons that have been cited this morning, the amount of property that the Federal Government owns and the dollar values associated with that property, this is clearly a very, very important problem.

As mentioned, in January of this year we did add the issue of Federal real property to our high risk list. We did that for a number of reasons, primarily because Federal real property has been experiencing some very significant, complex and longstanding problems. The Federal Government has not been postured very well to address those problems from either the legislative authorization standpoint or the management of the issue from the administration standpoint for a variety of reasons.

One of the major issues that has been discussed and specifically the leading reason why we did put the issue on the high risk list was the subject of excess property, under used or under utilized property. The Federal Government owns a substantial amount of this property. Just for three agencies alone, the Postal Service, the VA and GSA, we have identified over 900 properties as of the beginning of this fiscal year, that were vacant or under utilized.

There are a number of these properties in a variety of agencies. Just a couple of examples, one that we see over here is the Charleston Federal Building which has been vacant since 1999 due to hurricane damage; it has asbestos; it has been condemned. It is a very nice piece of property in a very desirable area in Charleston. Unfortunately, it was a candidate for public/private partnership but GSA lacks the authority to enter such an agreement or arrangement for this type of property and it is currently negotiating with the city of Charleston for an exchange of property.

Another example is the St. Elizabeth's Hospital here in Washington, DC, a very large piece of property that has not been used as a Federal hospital for many years. It has been a long time in coming but finally in the last couple of years, HHS has been working with GSA to address the problems of the property. A number of problems are associated with those that are typical of Federal properties. It has deteriorated, it has environmental issues and it is historic. So there are a number of challenges there.

Finally, I would like to point out a third example which is the old Chicago Post Office, a very large facility which has been vacant for several years when it was replaced by a new facility. This property costs the Postal Service over $2 million a year to hold. A sale has been agreed to but there have been complications that have arisen for a variety of reasons. So it is still vacant and still costing the Postal Service money. There are many other examples but I won't go into those.

There are other reasons that we put this issue on the high risk list. There are many buildings that are deteriorated. The Govern-

ment relies too often on leasing rather than ownership. One example of that is the Patent and Trademark Office complex currently being constructed in Alexandria. It has been estimated that is going to cost the Government almost $50 million to lease as opposed to own. There are other examples. Finally, the Government faces many challenges these days as a result of the events of September 11 in securing its property. Of course, to the extent the Government has to secure property it doesn't really need, those funds could be used for other purposes.

As I indicated, we don't see that the Federal Government is in a good position to address these issues. One, there has been no central focus on this because over 30 agencies have responsibility and jurisdiction to own property. Agencies lack, as indicated, the authority to do many of the things that need to be done. In our view agencies need to have appropriate tools and authority to deal with this problem and the executive branch needs to pull together its efforts and basically provide leadership, oversight and a comprehensive transformation plan that would lay out what needs to be done. We are very pleased that OMB has taken the initiative. We all came to the same conclusion I think pretty much at the same time and we are very pleased to be able to work with OMB, GSA, your committee and Mr. LaTourette's subcommittee to address these problems in the future.

[The prepared statement of Mr. Ungar follows:]

United States General Accounting Office

GAO

Testimony

Before the Committee on Government Reform, House of Representatives

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FEDERAL REAL PROPERTY

Executive and Legislative Actions Needed to Address Long-standing and Complex Problems

Statement of Bernard L. Ungar
Director, Physical Infrastructure Issues

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GAO-03-839T

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Highlights

Highlights of GAO-03-839T, a testimony before the Committee on Government Reform, House of Representatives

June 5, 2003

FEDERAL REAL PROPERTY

Executive and Legislative Actions Needed to Address Long-standing and Complex Problems

Why GAO Did This Study

Long-standing problems with excess and underutilized real property, deteriorating facilities, unreliable real property data, and costly space challenges are shared by several agencies. These factors have multibillion-dollar cost implications and can seriously jeopardize agencies' missions. Federal agencies face many challenges securing real property due to the threat of terrorism. This testimony discusses long-standing, complex problems in the federal real property area and what actions are needed to address them.

What GAO Recommends

This testimony discusses recommendations that we have previously made in GAO reports. Generally, there is a need for a comprehensive and integrated real property transformation strategy that could identify how best to realign federal real property and dispose of unneeded assets; address significant real property repair and restoration needs; develop reliable, useful real property data; resolve the problem of heavy reliance on costly leasing; and minimize the impact of terrorism on real property.

An independent commission or governmentwide task force may be needed to develop this strategy and legislative actions are needed to provide agencies with tools—such as retaining a portion of disposal proceeds—to help them address the problems.

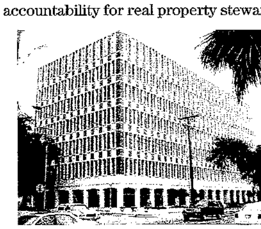
www.gao.gov/cgi-bin/getrpt?GAO-03-839T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Bernard Ungar at (202) 512-4232 or ungarb@gao.gov.

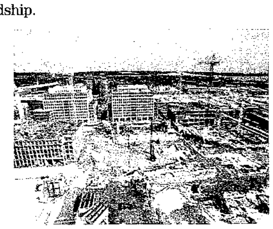
What GAO Found

Over 30 agencies control hundreds of thousands of real property assets worldwide, including facilities and land, which are worth hundreds of billions of dollars. Unfortunately, much of this vast, valuable portfolio reflects an infrastructure based on the business model and technological environment of the 1950s. Many of the assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Further, many assets are in an alarming state of deterioration; agencies have estimated restoration and repair needs to be in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing instead of ownership to meet new needs, and the cost and challenge of protecting these assets against potential terrorism.

Resolving these problems will require high-level attention and effective leadership by both Congress and the administration. Also, because of the breadth and complexity of the issues, the long-standing nature of the problems, and the intense debate that will likely ensue, current structures and processes may not be adequate to address the problems. Thus, as we have reported, there is a need for a comprehensive, integrated transformation strategy for real property that will focus on some of the underlying causes that contribute to these problems, such as competing stakeholder interests in real property decisions; various legal and budget-related disincentives to businesslike outcomes; inadequate capital planning and the lack of governmentwide focus on real property issues. It is equally important that Congress and the administration work together to develop and enact needed reform legislation to give real property-holding agencies the tools they need to achieve better outcomes. This would also foster a more businesslike real property environment and provide for greater accountability for real property stewardship.



The Vacant L. Mendel Rivers Federal Building, Charleston, S.C.
Source: Ernst and Young.



The U.S. Patent and Trademark Office (PTO) Construction Project in Alexandria, VA (February 2003)
Source: PTO.

Mr. Chairman and Members of the Committee:

We welcome the opportunity to testify on the executive and legislative branch actions that are needed to address the long-standing and complex problems that led to our designation of federal real property as a high-risk area. As you know, at the start of each new Congress since 1999, we have issued a special series of reports, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, we designated federal real property a high-risk area as part of this series.[1] My testimony is based on our January 2003 high-risk report; work we have done to update information on some of the example properties from our January 2003 high-risk report; and other GAO reports on real property issues, including public-private partnerships.[2] My testimony focuses on the problems with federal real property and what needs to be done to address them.

Summary

Over 30 agencies control hundreds of thousands of real property assets worldwide, including facilities and land. These assets are worth hundreds of billions of dollars. Unfortunately, much of this vast, valuable portfolio reflects an infrastructure based on the business model and technological environment of the 1950s. Many of the assets are no longer effectively aligned with, or responsive to, agencies' changing missions and are therefore no longer needed. Further, many assets are in an alarming state of deterioration; agencies estimate that restoration and repair needs are in the tens of billions of dollars. Compounding these problems are the lack of reliable governmentwide data for strategic asset management, a heavy reliance on costly leasing instead of ownership to meet new space needs,

[1]U.S. General Accounting Office, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.; Jan. 2003); the report on real property is a companion to GAO's 2003 high-risk update, U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: Jan. 2003); these reports are intended to help the new Congress focus its attention on the most important issues and challenges facing the federal government.

[2]Under a public-private partnership, a contractual arrangement is formed between public and private sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service. In the case of real property, the federal government typically would contribute the property and a private sector entity contributes financial capital and borrowing ability to redevelop or renovate the property.

and the cost and challenge of protecting these assets against potential terrorism.

Resolving these long-standing problems will require high-level attention and effective leadership by both Congress and the administration. Also, because of the breadth and complexity of the issues, the long-standing nature of the problems, and the intense debate that will likely ensue, current structures and processes may not be adequate to address the problems. Thus, there is a need for a comprehensive, integrated transformation strategy for real property. This strategy should also reflect lessons learned and leading practices of public and private organizations. Realigning the government's real property, considering the future federal role and workplace needs, will be critical to improving the government's performance and ensuring accountability within expected resource limits.

The Federal Real Property Environment

The federal real property environment has many stakeholders and involves a vast and diverse portfolio of assets that are used for a wide variety of missions. Real property is generally defined as facilities; land; and anything constructed on, growing on, or attached to land. The U.S. government's fiscal year 2002 financial statements show an acquisition cost of more than $335 billion for real property assets held by the federal government on September 30, 2002.[3] In terms of facilities, the latest available governmentwide data from the General Services Administration (GSA) indicated that, as of September 30, 2002, the federal government owned and leased approximately 3.4 billion square feet of building floor area worldwide.[4] The Department of Defense (DOD), U.S. Postal Service (USPS), GSA, and the Department of Veterans Affairs (VA) hold the majority of the owned facility space.

Federal real property managers operate in a complex and dynamic environment. Numerous laws and regulations govern the acquisition, management, and disposal of federal real property. The Federal Property

[3]This value does not include stewardship assets, which are not reported on the government's balance sheet. These assets include wilderness areas, scenic river systems, monuments, defense facilities (including military bases), and national defense assets. Also, real property data contained in the financial statements of the U.S. government have been problematic. As discussed in more detail later, we were unable to express an opinion on the U.S. government's consolidated financial statements for fiscal year 2002.

[4]U.S. General Services Administration, *Federal Real Property Profile, as of September 30, 2002* (Washington, D.C.).

and Administrative Services Act of 1949, as amended (Property Act), and the Public Buildings Act of 1959, as amended, are the laws that generally apply to real property held by federal agencies; and GSA is responsible for the acts' implementation.[5] Agencies are subject to these acts, unless they are specifically exempted from them, and some agencies may also have their own statutory authority related to real property. Agencies must also comply with numerous other laws related to real property.

The Federal Government Has Many Assets It Does Not Need

Despite significant changes in the size and mission needs of the federal government in recent years, the federal portfolio of real property assets in many ways still largely reflects the business model and technological environment of the 1950s. In the last decade alone, the federal government has reduced its workforce by several hundred thousand personnel, and several federal agencies have had major mission changes. With these personnel reductions and mission changes, the need for existing space, including general-purpose office space, has declined overall and necessitated the need for different kinds of space. At the same time, technological advances have changed workplace needs, and many of the older buildings are not configured to accommodate new technologies. Furthermore, the advent of electronic government is starting to change how the public interacts with the federal government. These changes will have significant implications for the type and location of property needed in the 21st century.

One reason the government has many unneeded assets is that some of the major real property-holding agencies have undergone significant mission shifts that have affected their real property needs. For example, after the Cold War, DOD's force structure was reduced by 36 percent. Despite four rounds of base closures, DOD projects that it still has considerably more property than it needs. The National Defense Authorization Act for Fiscal Year 2002,[6] which became law in December 2001, gave DOD the authority for another round of base realignments and military installation closures in 2005. In the mid-1990s, VA began shifting its role from being a traditional hospital-based provider of medical services to an integrated delivery system that emphasizes a full continuum of care with a significant

[5]For the Property Act, see 40 U.S.C. § 101 et. seq.; the Property Act excludes certain types of property, such as public domain assets and land reserved or dedicated for national forest or national park purposes; for the Public Buildings Act, see 40 U.S.C. § 3301 et. seq.

[6]P.L. 107-107, 115 Stat. 1012, 1342 (2001).

shift from inpatient to outpatient services. Subsequently, VA has struggled to reduce its large inventory of buildings, many of which are underutilized or vacant. Although the Department of Energy (DOE) is no longer producing new nuclear weapons, it still maintains a facilities infrastructure largely designed for this purpose.

The magnitude of the problem with underutilized or excess federal property puts the government at significant risk for wasting taxpayers' money and missed opportunities. First, underutilized or excess property is costly to maintain. DOD estimates that it is spending $3 billion to $4 billion each year maintaining facilities that are not needed. In July 1999, we reported that vacant VA space was costing as much as $35 million to maintain each year.[7] Costs associated with excess DOE facilities, primarily for security and maintenance, exceed $70 million annually.[8] It is likely that other agencies that continue to hold excess or underutilized property are also incurring significant costs for staff time spent managing the properties and on maintenance, utilities, security, and other building needs. Second, in addition to day-to-day operational costs, holding these properties has opportunity costs for the government, because these buildings and land could be put to more cost-beneficial uses, exchanged for other needed property, or sold to generate revenue for the government. Finally, continuing to hold property that is unneeded does not present a positive image of the federal government in local communities. Instead, it presents an image of waste and inefficiency that erodes taxpayers' confidence. It also can have a negative impact on local economies if the property is occupying a valuable location and is not used for other purposes, sold, or used in a public-private partnership.

Appendix I discusses some examples of vacant, highly visible properties that are in the federal inventory—the L. Mendel Rivers Federal Building in Charleston, S.C., St. Elizabeths Hospital in Washington, D.C., and the former main post office building in downtown Chicago, Ill. These examples demonstrate the challenges agencies face in disposing of unneeded property.

[7]U.S. General Accounting Office, *VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process*, GAO/T-HEHS-99-173 (Washington, D.C.: July 22, 1999).

[8]DOE Office of the Inspector General, *Disposition of the Department's Excess Facilities*, DOE/IG-0550 (Washington, D.C.: Apr. 3, 2002).

The Federal Portfolio Is in an Alarming State of Deterioration

Restoration, repair, and maintenance backlogs in federal facilities are significant and reflect the federal government's ineffective stewardship over its valuable and historic portfolio of real property assets. The state of deterioration is alarming because of the magnitude of the repair backlog—current estimates show that tens of billions of dollars will be needed to restore these assets and make them fully functional. This problem has accelerated in recent years because much of the federal portfolio was constructed over 50 years ago, and these assets are reaching the end of their useful lives. As with the problems related to underutilized or excess property, the challenges of addressing facility deterioration are also prevalent at major real property-holding agencies. For example:

- Over the last decade, DOD reports that it has been faced with the major challenge of adequately maintaining its facilities to meet its mission requirements. Although DOD no longer reports data on backlog of repairs and maintenance, it reported in 2001 that the cost of bringing its facilities to a minimally acceptable condition was estimated at $62 billion; the cost of correcting all deficiencies was estimated at $164 billion.[9]

- The Department of the Interior (Interior) has a significant deferred maintenance backlog that the Interior Inspector General (IG) estimated in April 2002 to be as much as $8 billion to $11 billion. This backlog has affected numerous national treasures, such as Ellis Island, Independence Hall, Yellowstone National Park, and Mount Rushmore, just to name a few.

- GSA has struggled over the years to meet the repair and alteration requirements identified at its buildings. In March 2000, we reported that GSA data showed that over half of GSA's approximately 1,700 buildings needed repairs estimated at about $4 billion.[10] More recently, in August 2002, we reported that this estimated backlog of identified repair and alteration needs was up to $5.7 billion.[11]

[9]U.S. Department of Defense, *Report to Congress: Identification of the Requirements to Reduce the Backlog of Maintenance and Repair of Defense Facilities* (Washington, D.C.: Apr. 2001).

[10]U.S. General Accounting Office, *Federal Buildings: Billions Are Needed for Repairs and Alterations*, GAO/GGD-00-98 (Washington, D.C.: Mar. 30, 2000).

[11]U.S. General Accounting Office, *Financial Condition of Federal Buildings Owned by the General Services Administration*, GAO-02-854R (Washington, D.C.: Aug. 8, 2002).

Other agencies with repair backlogs that we highlighted in our high-risk report include the Department of State (State), DOE, the Smithsonian Institution, and USPS. Since issuing our high-risk report, we have updated our assessment of facility conditions at DOD and State.

- In February 2003, we reported that although the amount of money the active forces have spent on facility maintenance had increased recently, DOD and service officials said that these amounts had not been sufficient to halt the deterioration of facilities.[12] Too little funding to adequately maintain facilities is also aggravated by DOD's acknowledged retention of facilities in excess of its needs. Furthermore, there is a lack of consistency in the services' information on facility conditions, making it difficult for Congress, DOD, and the services to direct funds to facilities where they are most needed and to accurately gauge facility conditions. And, although DOD has a strategic plan for facilities, it lacks comprehensive information on the specific actions, time frames, responsibilities, and funding needed to reach its goals. In May 2003, we also reported on a similar problem with Guard and Reserve facilities.[13]

- In March 2003, we reported that many of the primary office buildings at overseas embassies and consulates were in poor condition.[14] In 2002, State estimated that its repair backlog was $736 million. In addition, the primary office building at more than half of the posts does not meet certain fire/life safety standards. State officials stated that maintenance costs would increase over time because of the age of many of the buildings, and overcrowding has become a problem at several posts.

Our work over the years has shown that the deterioration problem leads to increased operational costs, has health and safety implications that are worrisome, and can compromise agency missions. In addition, we have reported that the ultimate cost of completing delayed repairs and alterations may escalate because of inflation and increases in the severity

[12]U.S. General Accounting Office, *Defense Infrastructure: Changes in Funding Priorities and Strategic Planning Needed to Improve the Condition of Military Facilities*, GAO-03-274 (Washington, D.C.: Feb. 19, 2003).

[13]U.S. General Accounting Office, *Defense Infrastructure: Changes in Funding Priorities and Management Processes Needed to Improve Condition and Reduce Costs of Guard and Reserve Facilities*, GAO-03-516 (Washington, D.C.: May15, 2003).

[14]U.S. General Accounting Office, *Overseas Presence: Conditions of Overseas Diplomatic Facilities*, GAO-03-557T (Washington, D.C.: Mar. 20, 2003).

of the problems caused by the delays.[15] As discussed above, the overall cost could also be affected by government realignment. That is, to the extent that unneeded property is also in need of repair, disposing of such property could reduce the repair backlog. Another negative effect, which is not readily apparent but nonetheless significant, is the effect that deteriorating facilities have on employee recruitment, retention, and productivity. This human capital element is troublesome because the government is often at a disadvantage in its ability to compete in the job market in terms of the salaries agencies are able to offer. Poor physical work environments exacerbate this problem and can have a negative impact on potential employees' decisions to take federal positions. Furthermore, research has shown that quality work environments make employees more productive and improve morale. Finally, as with excess or underutilized property, deteriorated property presents a negative image of the federal government to the public. This is particularly true when many of the assets the public uses and visits the most—such as national parks and museums—are deteriorated and in generally poor condition.

Key Decisionmakers Lack Reliable and Useful Data on Real Property Assets

Compounding the problems with excess and deteriorated property is the lack of reliable and useful real property data that are needed for strategic decisionmaking. GSA's worldwide inventory database and related reports are the only central source of descriptive data on the makeup of the real property inventory, such as property address, square footage, acquisition date, and property type. However, in April 2002, we reported that the worldwide inventory contained data that were unreliable and of limited usefulness.[16] GSA agreed with our findings and has recently revamped this database and produced a new report on the federal inventory, as of September 30, 2002.[17]

In addition to problems with the worldwide inventory, real property data contained in the financial statements of the U.S. government have been

[15]U.S. General Accounting Office, *Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed*, GAO-01-452 (Washington, D.C.: Apr. 12, 2001).

[16]U.S. General Accounting Office, *Federal Real Property: Better Governmentwide Data Needed for Strategic Decisionmaking*, GAO-02-342 (Washington, D.C.: Apr. 16, 2002).

[17]U.S. General Services Administration, *Federal Real Property Profile as of September 30, 2002* (Washington, D.C.).

problematic.[18] In April 2003, we reported that—for the sixth consecutive year—we were unable to express an opinion on the U.S. government's consolidated financial statements for fiscal year 2002.[19] We have reported that because the government lacked complete and reliable information to support asset holdings—including real property—it could not satisfactorily determine that all assets were included in the financial statements, verify that certain reported assets actually existed, or substantiate the amounts at which they were valued. Aside from the problematic financial data, some of the major real property-holding agencies—including DOD, State, GSA, and Interior—have faced challenges in developing quality management data on their real property assets. The problems at these agencies are discussed in more detail in our high-risk report.

Reliance on Costly Leasing

As a general rule, building ownership options through construction or purchase are the least expensive ways to meet agencies' long-term requirements for space. Lease-purchases—where payments are spread out over time and ownership of the asset is eventually transferred to the government— are generally more expensive than purchase or construction but are generally less costly than using ordinary operating leases to meet long-term space needs.[20] However, over the last decade, we have reported that GSA—as the central leasing agent for most agencies—relies heavily on operating leases to meet new long-term needs because it lacks funds to pursue ownership. In 1999, we reported that for nine major operating lease acquisitions that GSA had proposed, construction would have been the least-cost option in eight cases and would have saved an estimated $126 million. Lease-purchase would have saved an estimated $107 million, compared with operating leases but would have cost $19

[18]The Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act, required the annual preparation and audit of individual financial statements for the federal government's 24 major agencies. The Department of the Treasury was also required to compile consolidated financial statements for the U.S. government annually, which we audit.

[19]U.S. General Accounting Office, *Fiscal Year 2002 U.S. Government Financial Statements: Sustained Leadership and Oversight Needed for Effective Implementation of Financial Management Reform*, GAO-03-572T (Washington, D.C.: Apr. 8, 2003).

[20]In an operating lease, the government makes periodic lease payments over the specified length of the lease in exchange for the use of the property.

million more than construction.[21] A prime example of this problem was the Patent and Trademark Office's long-term requirements in northern Virginia, where the cost of meeting this need with an operating lease was estimated to be $48 million more than construction and $38 million more than lease-purchase. In August 2001, we also reported that GSA reduced the term of a proposed 20-year lease for the Department of Transportation headquarters building to 15 years so that it could meet the definition of an operating lease. GSA's fiscal year 1999 prospectus for constructing a new facility for this need showed the cost of construction was estimated to be $190 million less than an operating lease.

Operating leases have become an attractive option in part because they generally look cheaper in any given year. Pursuant to the scoring rules adopted as a result of the Budget Enforcement Act of 1990, the budget authority to meet the government's real property needs is to be scored—meaning recorded in the budget—in an amount equal to the government's total legal commitment. For example, for lease-purchase arrangements, the net present value of the government's legal obligations over the life of the lease contract is to be scored in the budget in the first year. For construction or purchase, the budget authority for the full construction costs or purchase price is to be scored in the first year. However, for many of the government's operating leases—including GSA leases, which, according to GSA, account for over 70 percent of the government's leasing expenditures and are self-insured in the event of cancellation—only the budget authority to cover the government's commitment for an annual lease payment is required to be scored in the budget.[22] Given this, although operating leases are generally more costly over time, compared with other options, they add much less to a single year's appropriation total than these other arrangements, making an operating lease a more attractive option from an annual budget perspective, particularly when funds for ownership are not available. Although the requirement for "up-front funding" permits disclosure of the full costs to which the government is being committed, the budget scorekeeping rules allow costly operating

[21]U.S. General Accounting Office, *General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction*, GAO/GGD-99-49R (Washington, D.C.: Mar. 12, 1999).

[22]According to the scoring rules (OMB *Circular A-11*, app. B), in cases where the operating lease does not have a cancellation clause or is not paid for with federal funds that are self-insuring, budget authority to cover the total costs expected over the life of the lease is to be scored in the first year of the lease.

leases to "look cheaper" in the short term and have encouraged an overreliance on them for satisfying long-term space needs.

Decisionmakers have struggled with this matter since the scoring rules were established and the tendency for agencies to choose operating leases instead of ownership became apparent. We have suggested the alternative of scoring all operating leases up-front on the basis of the underlying time requirement for the space so that all options are treated equally.[23] Although this could be a viable alternative, there would be implementation challenges if this were pursued, including the need to evaluate the validity of agencies' stated space requirements. Another option—which was recommended by the President's Commission to Study Capital Budgeting in 1999 and discussed by GAO[24]—would be to allow agencies to establish capital acquisition funds to pursue ownership where it is advantageous, from an economic perspective. To date, none of these options has been implemented, and debate continues among decisionmakers about what should be done. Finding a solution for this problem has been difficult; however, change is needed because the current practice of relying on costly leasing to meet long-term space needs results in excessive costs to taxpayers and does not reflect a sensible approach to capital asset management.

Security Against Terrorism Is an Overarching Concern

Terrorism is a major threat to federally owned and leased real property assets, the civil servants and military personnel who work in them, and the public who visits them. This was evidenced by the 1995 Oklahoma City bombing; the 1998 embassy bombings in Africa; the September 11, 2001, attacks on the World Trade Center and Pentagon; and the anthrax attacks in the fall of 2001. Since the Oklahoma City bombing, the federal government has spent billions of dollars on security upgrades within the country and overseas. A study of federal facilities done by the Justice Department in 1995 resulted in minimum-security standards and an evaluation of security conditions in the government's facilities. In October 1995, the President signed Executive Order 12977, which established an Interagency Security Committee (ISC) to enhance the quality and

[23] U.S. General Accounting Office, *Supporting Congressional Oversight: Budgetary Implications of Selected GAO Work for Fiscal Year 2003*, GAO-02-576 (Washington, D.C.: Apr. 26, 2002).

[24] U.S. General Accounting Office, *Accrual Budgeting: Experiences of Other Nations and Implications for the United States*, GAO/AIMD-00-57 (Washington, D.C.: Feb. 18, 2000).

effectiveness of security in nonmilitary federal facilities. Since the attacks on the World Trade Center and the Pentagon, the focus on security in federal buildings has been heightened considerably. Real property-holding agencies have gone on high alert and are employing such measures as searching vehicles that enter federal facilities, restricting parking, and installing concrete barricades. As the government's security efforts intensify, the government will be faced with important questions regarding the level of security needed to adequately protect federal facilities and how the security community should proceed. Furthermore, the 1995 Justice study placed an emphasis on increasing security where large numbers of personnel are located. However, a risk-based approach—which GSA is using for the federal buildings it controls—appears to be more desirable in light of this new round of threats. In September 2001, we reported that DOD uses a risk-based approach to reduce installation vulnerabilities, but this approach was applied primarily to installations with 300 or more personnel assigned on a daily basis.[25] We recommended that DOD improve this approach by ensuring all critical military facilities receive a periodic vulnerability assessment conducted by their higher headquarters regardless of the number of personnel assigned. DOD concurred and began taking action.

Since 1996, we have produced more than 60 reports and testimonies on the federal government's efforts to combat terrorism. Several of these reports have recommended that the federal government use risk management as an important element in developing a national strategy.[26] We have also reported extensively on the security problems and challenges at individual real property-holding agencies. Our high-risk report identifies the problems and challenges faced by State, DOD, Interior, GSA, USPS, and the ISC. More recently, we testified on security conditions of overseas diplomatic facilities.[27] We found that State has done much over the last 4 years to improve physical security at overseas posts by, for example, constructing perimeter walls, anti-ram barriers, and access controls at many facilities. However, even with these improvements, most office facilities do not meet security standards. As a result, thousands of U.S.

[25]U.S. General Accounting Office, *Combating Terrorism: Actions Needed to Improve DOD Antiterrorism Program Implementation and Management*, GAO-01-909 (Washington, D.C.: Sept. 19, 2001).

[26]U.S. General Accounting Office, *Homeland Security: A Risk Management Approach Can Guide Preparedness Effort*, GAO-02-208T (Washington, D.C.: Oct. 31, 2001).

[27]GAO-03-557T.

government employees may be vulnerable to terrorist attacks. Furthermore, our work has shown that agency coordination is critical to addressing security challenges. In our February 2003 report on threats to selected agencies' critical computer and physical infrastructures, selected agencies identified challenges, including coordinating security efforts with GSA, which may often be responsible for protecting facilities that house critical assets.[28] We recommended that steps be taken to complete the identification and analysis of their critical assets and their dependencies, including setting milestones, developing plans to address vulnerabilities, and monitoring progress.

In addition to the clear challenges agencies will continue to face in securing real property assets, the security issue has an impact on the other problems that we have discussed. To the extent that more funding will be needed to increase security, funding availability for repair and restoration, preparing excess property for disposal, and improving real property data systems may be further constrained. Furthermore, real property managers will have to dedicate significant staff time and other human capital resources to security issues and thus may have less time to manage other problems. Another broader effect is the impact that increased security will have on the public's access to government offices and other assets. Debate arose in the months after September 11, 2001, and continues to this day on the challenge of providing the proper balance between public access and security. In November 2002, legislation was enacted establishing the Department of Homeland Security (DHS).[29] DHS was given responsibility to protect buildings, grounds, and property owned, occupied, or secured by the federal government that were previously under the Federal Protective Service, which was part of GSA. In addition, the Act provided DHS with authority to protect the buildings, grounds, and property of any other agency whose functions were transferred under the Act. In September 2002, we reported on the implications that the creation of DHS would have on ISC. We concluded that the need to address the ISC's lack

[28]U.S. General Accounting Office, *Critical Infrastructure Protection: Challenges for Selected Agencies and Industry Sectors*, GAO-03-233 (Washington, D.C.: Feb. 28, 2003); the agencies reviewed were the Departments of Health and Human Services, Energy, and Commerce, and the Environmental Protection Agency.

[29]P.L. 107-296; 116 Stat. 2135 (2002).

of progress in fulfilling its responsibilities should be taken into account in establishing this new department.[30]

Various Efforts Initiated, but Real Property Problems Persist Due to Factors that Require High-Level Attention

Although the federal government faces significant, long-standing problems in the real property area, it is important to give Congress, Office of Management and Budget (OMB), GSA, and the major real property-holding agencies credit for proposing several reform efforts and other initiatives in recent years. Legislative proposals in the 107th Congress (S. 1612[31] and H.R. 3947[32]) were aimed at improving real property data, establishing senior real property managers at agencies, developing asset management principles, and identifying specific conditions under which GSA and other agencies can enter into real property partnerships with the private sector. In July 2001, we reported that public-private partnership authority could be an important management tool to address problems in deteriorating federal buildings, but that further study of this tool was needed.[33] Appendix II summarizes this report and discusses two examples of public-private partnership opportunities. Another initiative in the National Defense Authorization Act for fiscal year 2002 gave DOD the authority for another round of base realignment and military installation closures in 2005. DOD officials testified that these actions could result in recurring annual net savings of about $3 billion. Despite these and other initiatives agencies have undertaken and the sincerity with which the federal real property community has embraced the need for reform, the problems have persisted and have been exacerbated by several factors that will require high-level attention from Congress and the administration. These factors include competing stakeholder interests in real property decisions; various legal and budget-related disincentives to businesslike outcomes; the need for improved capital planning; and the lack of a strategic, governmentwide focus on federal real property issues. More specifically:

[30]U.S. General Accounting Office, *Building Security: Interagency Security Committee Has Had Limited Success in Fulfilling Its Responsibilities*, GAO-02-1004 (Washington, D.C.: Sept. 17, 2002).

[31]Title III of the Managerial Flexibility Act of 2001 (2001) is entitled Federal Property Asset Management Reforms.

[32]The Federal Property Asset Management Reform Act of 2002 (2002).

[33]U.S. General Accounting Office, *Public-Private Partnerships: Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships*, GAO-01-906 (Washington, D.C.: July 25, 2001).

- Competing Stakeholder Interests - In addition to Congress, OMB, and the real property-holding agencies themselves, several other stakeholders also have an interest in how the federal government carries out its real property acquisition, management, and disposal practices. These include foreign and local governments; business interests in the communities where the assets are located; private sector construction and leasing firms; historic preservation organizations; various advocacy groups; and the public in general, which often views the facilities as the physical face of the federal government in local communities. As a result of competing stakeholder interests, decisions about real property often do not reflect the most cost-effective or efficient alternative that is in the interests of the agency or the government as a whole but instead reflect other priorities.

- Legal and Budgetary Disincentives - The complex legal and budgetary environment in which real property managers operate has a significant impact on real property decisionmaking and often does not lead to businesslike outcomes. For example, we have reported that public-private partnerships might be a viable option for redeveloping obsolete federal property when they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. However, most agencies—except for DOD, VA, and USPS—are precluded from entering into such arrangements.[34] Resource limitations, in general, often prevent agencies from addressing real property needs from a strategic portfolio perspective. When available funds for capital investment are limited, Congress must weigh the need for new, modern facilities with the need for renovation, maintenance, and disposal of existing facilities, the latter of which often gets deferred. In the disposal area, a range of laws intended to address other objectives—such as laws related to historic preservation and environmental remediation—make it challenging for agencies to dispose of unneeded property.

- Need for Improved Capital Planning - Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital

[34]When agencies have additional flexibilities, we have found that they can still face impediments. For example, VA is required to use the proceeds from disposal of property for nursing home construction and DOD has lacked personnel with sufficient experience to undertake complex real estate transactions. See U.S. General Accounting Office, *VA Health Care: Improved Planning Needed for Management of Excess Real Property*, GAO-03-326 (Washington, D.C.: Jan. 29, 2003); U.S. General Accounting Office, *Defense Infrastructure: Greater Management Emphasis Needed to Increase the Services' Use of Expanded Leasing Authority*, GAO-02-475 (Washington, D.C.: June 6, 2002).

acquisitions can result in increased long-term costs. GAO, Congress, and OMB have identified the need to improve federal decisionmaking regarding capital investment. Our *Executive Guide*,[35] OMB's *Capital Programming Guide* and its revisions to *Circular A-11* have attempted to provide guidance to agencies for making capital investment decisions. However, the guidance is not required to be used by agencies. Furthermore, agencies have not always developed overall goals and strategies for implementing capital investment decisions, nor has the federal government generally planned or budgeted for capital assets over the long term.

- Lack of a Strategic, Governmentwide Focus on Real Property Issues - Historically, there has not been a strategic, governmentwide focus on real property issues among decisionmakers. Although some efforts in recent years have attempted to address real property issues with some limited success, the problems have persisted and will continue to grow in magnitude unless they are adequately addressed from a governmentwide standpoint. Resolving the long-standing problems will require high-level attention and effective leadership by Congress and the administration and a governmentwide, strategic focus on real property issues. Also, it is important that key stakeholders develop an effective system to measure results. Having quality data would be critical to evaluate the progress of various reforms as they evolve.

A Transformation Strategy Is Needed

The magnitude of real property-related problems and the complexity of the underlying factors that cause them to persist put the federal government at significant risk in this area. Real property problems related to unneeded property and the need for realignment; deteriorating conditions, unreliable data, costly space, and security concerns have multibillion-dollar cost implications, and can seriously jeopardize mission accomplishment. Because of the breadth and complexity of the issues involved, the long-standing nature of the problems, and the intense debate about potential solutions that will likely ensue, current structures and processes may not be adequate to address the problems. Given this, we concluded in our high-risk report that a comprehensive and integrated transformation strategy for federal real property is needed, and that an independent commission or governmentwide task force may be needed to develop this strategy. Such a strategy, based on input from agencies, the

[35] U.S. General Accounting Office, *Executive Guide: Leading Practices in Capital Decision-Making*, GAO/AIMD-99-32 (Washington, D.C.: Dec. 1998).

private sector, and other interested groups, could comprehensively address these long-standing problems with specific proposals on how best to

- realign the federal infrastructure and dispose of unneeded property, taking into account mission requirements, changes in technology, security needs, costs, and how the government conducts business in the 21st century;
- address the significant repair and restoration needs of the federal portfolio;
- ensure that reliable governmentwide and agency-specific real property data—both financial and program related—are available for informed decisionmaking;
- resolve the problem of heavy reliance on costly leasing; and
- consider the impact that the threat of terrorism will have on real property needs and challenges, including how to balance public access with safety.

To be effective in addressing these problems, it would be important for the strategy to focus on

- minimizing the negative effects associated with competing stakeholder interests in real property decisionmaking;
- providing agencies with appropriate tools and incentives that will facilitate businesslike decisions—for example, consideration should be given to what financing options should be available; how disposal proceeds should be handled; what process would permit comparisons between rehabilitation/renovation and replacement and among construction, purchase, lease-purchase, and operating lease; and how public-private partnerships should be evaluated;
- addressing federal human capital issues related to real property by recognizing that real property conditions affect the federal government's ability to attract and retain high-performing individuals and the productivity and morale of employees;
- improving real property capital planning in the federal government by helping agencies to better integrate agency mission considerations into the capital decisionmaking process, make businesslike decisions when evaluating and selecting capital assets, evaluate and select capital assets

by using an investment approach, evaluate results on an ongoing basis, and develop long-term capital plans; and

- ensuring credible, long-term budget planning for facility sustainment, modernization, or recapitalization.

The transformation strategy should also reflect the lessons learned and leading practices of organizations in the public and private sectors that have attempted to reform their real property practices. Over the past decade, leading organizations in both the public and private sectors have been recognizing the impact that real property decisions have on their overall success. Better managing real property assets in the current environment calls for a significant departure from the traditional way of doing business. Solutions should not only correct the long-standing problems we have identified but also be responsive to and supportive of agencies' changing missions, security concerns, and technological needs in the 21st century. If actions resulting from the transformation strategy comprehensively address the problems and are effectively implemented, agencies will be better positioned to recover asset values, reduce operating costs, improve facility conditions, enhance safety and security, and achieve mission effectiveness.

In addition to developing a transformation strategy, it is critical that all the key stakeholders in government—Congress, OMB, and real property-holding agencies—continue to work diligently on the efforts planned and already under way that are intended to promote better real property capital decisionmaking, such as enacting reform legislation, assessing infrastructure and human capital needs, and examining viable funding options. Congress and the administration could work together to develop and enact reform legislation to give real property-holding agencies the tools they need to achieve better outcomes, foster a more businesslike real property environment, and provide for greater accountability for real property stewardship. These tools could include, where appropriate, the ability to retain a portion of the proceeds from disposal and the use of public-private partnerships in cases where they represent the best economic value to the government. Congress and the administration could also elevate the importance of real property in policy debates and recognize the impact that real property decisions have on agencies' missions. Solving the problems in this area will undeniably require a reconsideration of funding priorities at a time when budget constraints will be pervasive. However, experimenting with creative financing tools where they provide the best economic value for the government and allocating sufficient funding will likely result in long-term benefits.

Without effective tools; top management accountability, leadership, and commitment; adequate funding; and an effective system to measure results, long-standing real property problems will continue and likely worsen. However, the overall risk to the government and taxpayers could be substantially reduced if an effective transformation strategy is developed and successfully implemented, reforms are made, and property-holding agencies effectively implement current and planned initiatives. Since our high-risk report was issued, OMB has informed us that it is taking steps to address the federal government's problems in the real property area. Specifically, it has formed a team within OMB to determine how to approach the resolution of these long-standing issues. To assist OMB with its efforts, we have agreed to meet regularly to discuss progress and are providing OMB with specific suggestions on the types of actions and results that could be helpful in justifying the removal of real property from the high-risk list.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other members of the Committee may have at this time.

Contacts and Acknowledgments

For further information on this testimony, please contact Bernard L. Ungar on (202) 512-2834 or at ungarb@gao.gov. Key contributions to this testimony were made by Kevin Bailey, Christine Bonham, John Brummett, Maria Edelstein, Anne Kidd, Mark Little, Susan Michal-Smith, David Sausville, and Gerald Stankosky.

Appendix I: Examples of Vacant Federal Property

Three examples of vacant, highly visible federal properties are the L. Mendel Rivers Federal Building in Charleston, S.C., St. Elizabeths Hospital in Washington, D.C.; and the former main post office in downtown Chicago.

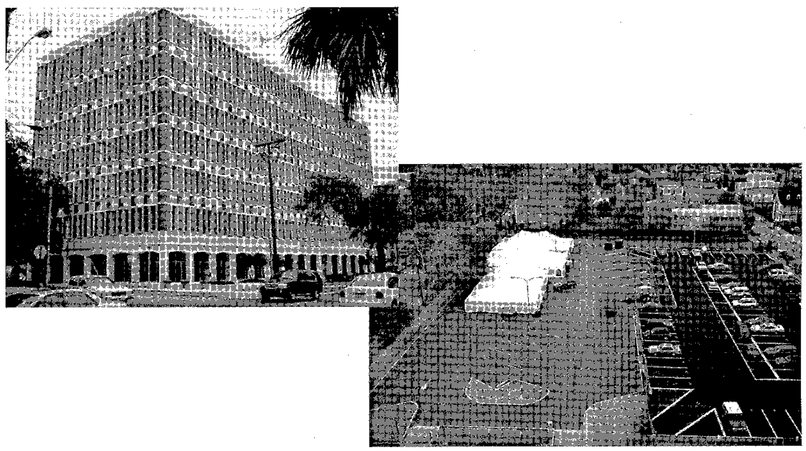
L. Mendel Rivers Federal Building, Charleston, S.C.

The Charleston building, held by the General Services Administration (GSA), is a 7-story, 100,000-square-foot office building on just over 2 acres (see fig. 1). The building is contaminated with asbestos and has been unoccupied since it sustained damage in 1999, from Hurricane Floyd. In July 2001, we reported that although there was a weak federal demand for space where the property is located, the property is located in a highly desirable location and that there was a strong potential for private sector demand.[1] Although the building is vacant, in fiscal year 2002, GSA still incurred almost $28,000 in costs related to operations and maintenance, such as utilities and fire protection. GSA receives a minimal amount of revenue by occasionally renting out the parking lot. According to GSA, although it may be advantageous for the government to retain the property, there are limited options for redevelopment; and funding has not been made available. Furthermore, GSA lacks authority to pursue a public-private partnership to address the needs of the property.

Given this situation, GSA has been in discussion with the city of Charleston officials for the last few years to exchange the Rivers building for a new building. Under the proposal, the city would construct a 27,000 square foot building for the federal government in the historic downtown business area adjacent to the existing federal building-courthouse in exchange for the Rivers building. GSA would also get use of 60 parking spaces in a city parking garage. Although the new building would be smaller than the Rivers building, data from GSA have shown that the exchange sites are of comparable value because of the new building's location in the central business district where land values are high. According to a GSA official, as of April 2003, GSA and the city of Charleston developed a memorandum of understanding (MOU) that outlines the conditions under which the L. Mendel Rivers Building would be exchanged. The MOU is currently with the city of Charleston and is expected to be signed shortly. Figure 1 shows the vacant Charleston building and its rear parking lot. The federal government owns the lot on the left side where the tent is located.

[1] GAO-01-906.

Figure 1: The Vacant L. Mendel Rivers Federal Building and Parking Lot in Charleston, S.C.



Source: Ernst and Young.

St. Elizabeths Hospital, Washington, D.C.

The west campus of St. Elizabeths, which has 61 mostly vacant buildings containing about 1.2 million square feet of space on 182 acres, is held by the Department of Health and Human Services (HHS). During the Civil War, the hospital was used to house soldiers recuperating from amputations, and the property contains a civil war cemetery. In 1990, the property—which contains magnificent vistas of the rivers and the city—was designated a national historic landmark. This is the same designation given to the White House, the U.S. Capitol building, and other buildings that have historic significance. HHS has not needed the property for many years. In April 2001, we reported that the property had significantly deteriorated and had environmental and historic preservation issues that

would need to be addressed in order for the property to be disposed of or transferred to another federal agency.[2]

In the last year, GSA, the District of Columbia (the District), HHS, and various public interest groups have been working to resolve the situation at St. Elizabeths. In May 2002, the Urban Land Institute formed an advisory panel that reported on several options for redeveloping the site.[3] The panel recommended that the federal government transfer the west campus to the District and that the District should identify a master developer for the site. The panel further recommended that the master developer consider redeveloping the site into four campus areas without changing the character of the surrounding neighborhoods and without displacing existing residents. The panel recommended preserving the historic buildings through adaptive use and sensitive addition of new buildings. In addition to the panel, an executive steering committee and a working group, each consisting of representation from the District, HHS, GSA, and public interest groups, have been established and HHS and GSA have proceeded with a number of actions to prepare the property for disposal. These include preparing the property for "mothballing," which is work done to minimize further deterioration of the property while the disposal process proceeds; determining the extent of environmental remediation needed; and conducting community outreach. Figure 2 shows the vacant, boarded-up Center Building, which opened in 1855 and served as the main hospital building.

[2]U.S. General Accounting Office, *St. Elizabeths Hospital: Real Property Issues Related to the West Campus*, GAO-01-434 (Washington, D.C.: Apr. 16, 2001).

[3]Urban Land Institute, *An Advisory Services Panel Report: Saint. Elizabeths Campus, Washington, D.C.* (Washington, D.C.: May 2002).

Figure 2: The Vacant Center Building, St. Elizabeths Hospital, District of Columbia

Source: GAO.
Note: Photograph taken in January 2001.

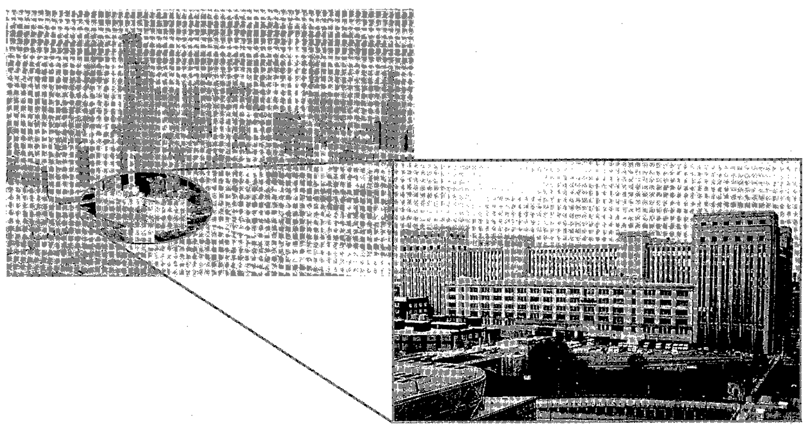
Former Chicago Main Post Office

The former Chicago main post office is a 2.5 million square foot facility that was vacated when it was replaced with a new facility in 1997. The U.S. Postal Service (USPS) is incurring about $2 million in annual holding costs for the property. According to USPS, the property was listed for sale and publicly offered. About five offers were received and the property was placed under contract of sale for $17 million. According to USPS, completion of the sale has been delayed due to the weakness of the Chicago real estate market and the lack of an agreement between the

developer and the city of Chicago that would abate real estate taxes on a portion of the redevelopment cost for a number of years. According to USPS, this situation has created a "chicken and egg" situation for the developer. Potential tenants are unwilling to commit to the project unless they are sure it will go ahead. The city appears unwilling to grant the tax abatement until the users of the building are known. USPS is hopeful that the city will begin to address the issue.

In addition to the holding costs USPS is incurring, a deteriorating façade will add additional repairs costs to USPS's annual budget. Furthermore, deterioration of the system that funnels train exhaust up through eight shafts to the roof of the building is a problem that will have to be addressed. The estimated cost of repair is about $10 million and is a condition of the sale. According to USPS, another factor, which bears on the cost of redevelopment, is that the State Historic Preservation Office wants to impose requirements on the redevelopment of the building. Currently, according to USPS, these requirements will add millions of dollars to the redevelopment costs and the buyer and USPS are reviewing them. USPS said that this project is challenging because of the large amount of space that needs to be developed. According to USPS, a breakthrough in current market conditions will have to be achieved, together with an agreement with the city before this project can move forward. Figure 3 shows downtown Chicago with the vacant post office building highlighted.

Figure 3: The Former Main Post Office in Downtown Chicago



Source: USPS.

Appendix II: Use of Public-Private Partnerships to Redevelop Federal Property

Under a public-private partnership, a contractual arrangement is formed between public and private sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service. In the case of real property, the federal government typically would contribute the property and a private sector entity contributes financial capital and borrowing ability to redevelop or renovate the property. Public-private partnerships can be a viable option for redeveloping obsolete federal property if they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. However, most agencies are precluded from entering into such arrangements. DOD, VA, and USPS, however, have this authority. Proposed real property reform legislation in the last Congress—S. 1612 and H.R. 3947—would have allowed most agencies to enter into such partnerships. In May 2002, the Congressional Budget Office concluded that the partnerships, like lease-purchase arrangements, should be recorded up front in the budget. S.1612 and H.R. 3947 were not enacted by the 107th Congress.

Public-private partnerships need to be carefully evaluated to determine whether they offer the best economic value for the government, compared with other available options. In July 2001,[1] we reported that 8 of 10 GSA properties were strong to moderate candidates for a partnership because there were potential benefits for both the private sector and the government. The potential internal rates of return (IRR)[2] for the private partner ranged from 13.7 to 17.7 percent. It should be noted that we did not calculate the IRR for the government if the government had financed the entire project. Furthermore, public-private partnerships will not necessarily work or be the best option available to address the problems in all federal properties. Two examples of properties that were strong candidates for a partnership were the Internal Revenue Service (IRS) Service Center in Andover, MA and an office building in Portland, Ore. that houses the Immigration and Naturalization Service known as the 511 Building. Since we profiled these properties in 2001, GSA officials said that they have been unable to pursue public-private partnerships for these

[1]GAO-01-906.

[2]IRR is the present value interest rate received for an investment consisting of payments and income that occur at regular periods; IRR measures the return, expressed as an interest rate, that an investor would earn on an investment.

properties because GSA continues to lack authority to enter into such arrangements.

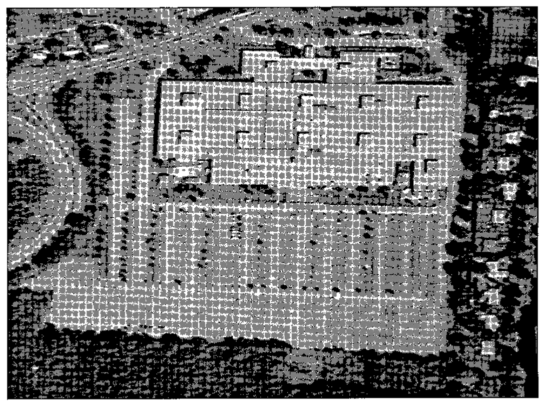
IRS Service Center, Andover, Mass.

The Andover Service Center was a strong candidate for a partnership in terms of strong federal demand, moderate private sector interest in development, and strong nonfederal demand for use of the property. The property is a 375,000 square foot, single story, highly secured building that is in need of capital repairs on 37 acres. At the time of our review, the IRS was leasing about 336,000 square feet in additional space in the area. GSA and IRS would like to consolidate IRS's operations, and the property would be desirable for the city of Andover and local developers to develop. The redevelopment strategy involved a partnership to develop a small office park consisting of six, 5-acre pads. Under this plan, the project could progress as follows:

- Year 1: Build a new 4-story, 700,000 square foot IRS facility and parking structure for current and expiring IRS leases; the complex would be at rear of site to allow for security and a phased development of the rest of the site.
- Year 2: IRS moves into the new facility and the old building is demolished; the partnership constructs another 250,000 square foot federal office building for non-IRS expiring leases.
- Years 3 and 4: Partnership constructs two more 250,000 square foot federal office buildings for compatible agency and private sector occupancy.

The analysis of this strategy projected a 14.4 percent lifetime IRR for the private partner and a 9.4 percent lifetime IRR for the government. Figure 4 is an aerial view of the IRS Service Center in Andover, Mass.

Figure 4: IRS Service Center, Andover, Mass.

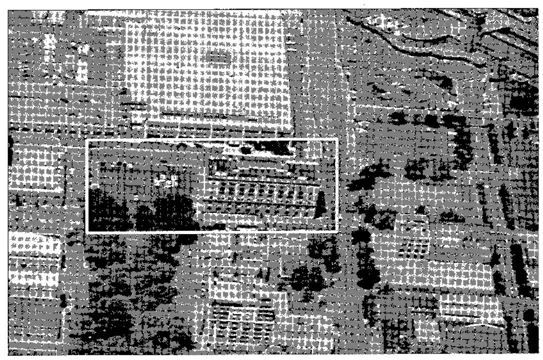


Source: Ernst and Young.

Portland, Ore., 511 Building

The 511 building was also a strong candidate for a partnership in terms of strong federal demand, strong private sector interest in development, and moderate nonfederal demand for use of the property. The 511 building is an historic, 6-floor building in a desirable location between downtown Portland and the trendy "Pearl District" that housed offices of the Immigration and Naturalization Service. The property includes a parking lot that was sought by the city for a pedestrian mall. The redevelopment strategy included renovating the existing historic office building, to include storage use in the basement and retail or restaurant on the first floor. In addition, the strategy included acquiring an additional site for construction of a 240,000 square foot, federal office building across the street. This strategy projected a 15.7 percent lifetime IRR for the private partner and a 12.7 percent lifetime IRR for the government. Figure 5 shows the 511 building (building in center of the picture).

Figure 5: 511 Building, Portland, Ore.



Source: Ernst and Young.

If the federal government were to completely finance the Andover and Portland projects, it would not have to share returns with a private sector partner. However, we did not determine what the returns would be in such a situation and how the returns would compare to the returns under a partnership arrangement.

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Chairman TOM DAVIS. Thank you very much.

Mr. Catlett.

Mr. CATLETT. Thank you, Mr. Chairman and members of the committee for asking me to testify today regarding new legislation for Federal agencies to enter into public/private partnerships, arrangements and Federal real property management.

At the VA, our public/private partnership is known as enhanced use leasing authority. It authorizes the department to lease its property or facilities for up to 75 years. VA has 12 years of experience with this program which is an integral part of our asset management program. In return for allowing VA property to be used for VA or non-VA mission compatible uses, VA can require rent in the form of reduction in the cost of free use of facilities or services for VA programs, monetary payments or other in-kind considerations which in the opinion of the Secretary enhances a particular VA activity mission.

Since its inception, VA has studied over 100 enhanced use leasing initiatives, we have awarded 27 projects, and we are actively developing 29 new initiatives. This program allows VA to maximize return from underutilized properties while protecting flexibility to retain, reuse or to dispose as dictated by future needs. It utilizes private resources instead of appropriation and creates a win-win situation for VA and the local communities by encouraging economic development of otherwise underutilized lands.

VA has been able to acquire office buildings, transitional housing, energy facilities, garages, lodging facilities, research and medical facilities, hospice care and adult and child care centers through this program.

As stated earlier, the enhanced use lease program is just one aspect of VA's overall asset management program. VA has been developing a capital asset portfolio that consists of six asset classes which are owned and leased real property, land, information technology, equipment and agreements. Business processes and decision frameworks covering long term management of VA's assets are being developed for each of these asset classes.

VA is also striving to move beyond asset management to portfolio management which involves leveraging and investment or combination of investments in order to minimize risk and maximize cost effectiveness and performance of assets.

VA has seven approved portfolio goals and is working to define the metrics for these goals.

Again, it is a pleasure to be here to discuss with you this important issue.

[The prepared statement of Mr. Catlett follows:]

STATEMENT OF D. MARK CATLETT
PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR MANAGEMENT
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE GOVERNMENT REFORM COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

JUNE 5, 2003

Thank you Mr. Chairman and Members of Committee for asking me to testify today regarding new legislation for federal agencies to enter into public-private partnership arrangements and federal real property management.

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Chairman TOM DAVIS. Thank you.

Major General Williams.

General WILLIAMS. Thank you, Mr. Chairman and members of the committee, for the opportunity to discuss the work of the Overseas Buildings Operations in the Department of State and managing our real properties overseas. It is a very delicate and complex set of responsibilities involving property valued at over $12 billion. I have submitted a full statement for the record which outlines this and I will briefly summarize some points.

Our mission was reshaped after the 1998 bombings in East Africa and was reinforced after September 11 and required the State Department to accelerate the construction of new facilities and use, quite frankly, new and improved best practices and different concepts.

GAO reported in January 2000 that the need to adequately protect our people overseas from threatened terrorist attacks well may be the single most important management issue facing the Department of State and OBO. The Overseas Buildings Operations and the Department have put in place a number of new reforms starting with the creation of a long range capital strategic plan which outlines how we would deal with both construction and disposal of properties.

Second, the Department put in place a more systematic way of gathering information to make certain that we build at the right size and obviously eliminate excess properties.

Third, the Department introduced a standard embassy design concept which allows us to achieve the objective.

Moving to management of overseas real estate, needless to say the backlog of unmet needs is really substantial. To the extent that we must maintain underutilized or unneeded facilities we are creating an even larger financial burden. The State Department is vigorously pursuing the disposal of excess and underutilized and overstandard properties. The significant changes in our security standards over the last few years have made this more of a challenge.

As stewards of the Department of State's real estate investments and representatives of the taxpaying public, we recognize our obligation. The authority to use the proceeds of sales, and I might add we are on a glad path this year for producing some $90 million through sales of underutilized properties and to use these proceeds of sales to replace and rehabilitate our existing facilities, is a further incentive to pursue the prompt and economically sound sale of these properties.

We might point out as well that there are some foreign policy considerations that we have that make us unique from the rest of the colleagues here. There are a number of reasons why we cannot connect as well as we would like the public/private dimension. However, we are using very effectively the build to lease concept where we do leverage the private sector in order to help us in many areas on certain types of facilities.

We have a reciprocity issue as well which is connected to international law which disallows us again to deal with some of the matters as related to public/private partnerships.

Unique expertise obviously is a requirement in the State Department in as much as we have to deal with the laws and rules of 260 locations around the world, that is where we have diplomatic facilities today. We have been very aggressive on this matter, we think we have a concept and program in place which allows us to effectively manage the assets.

GAO has made several recent inquiries into this matter and we have made presentations before Mr. Shays' subcommittee as well on this same matter.

I appreciate the opportunity on behalf of the State Department to participate today and look forward to answering your questions.

[The prepared statement of Major General Williams follows:]

HOUSE COMMITTEE ON GOVERNMENT REFORM
Thomas M. Davis III, Chairman
Henry A. Waxman, Ranking Member

TESTIMONY OF

MAJOR GENERAL (RET.) CHARLES E. WILLIAMS
Director and Chief Operating Officer
Overseas Buildings Operations Bureau
United States Department of State

on

MANAGING OVERSEAS PROPERTIES OF THE UNITED STATES DEPARTMENT OF STATE

June 5, 2003

Thank you Mr. Chairman and Members of the Committee, for this opportunity to discuss the work of the Overseas Buildings Operations Bureau (OBO) in managing the Department of State's real property assets overseas. It is a delicate and complex set of responsibilities, involving properties with a value of approximately $12 billion. I am happy to share my experience and hear your thoughts and questions.

OBO's primary mission, reshaped by the 1998 bombings of the U.S. Embassies in Dar Es Salaam and Nairobi, and reinforced by the events of 9/11, is to accelerate the construction of new facilities that can satisfy more stringent security standards and provide our diplomatic personnel safe, secure, and functional office and residential environments. Too many of our people overseas are in unsafe, insecure, dysfunctional facilities. Our job is to correct that situation as quickly and efficiently as our resources allow.

Restructuring OBO. When I joined Secretary Powell's transition team in December of 2000 to evaluate the Department's overseas facilities status and program, I reviewed the Inman Report, the Crowe Report, the Overseas Presence Advisory Panel (OPAP) Report, and various GAO reports on the challenges facing this function. The OPAP Report stated flatly that "The condition of U.S. posts and missions abroad is unacceptable. . . . [I]nsecure and often decrepit facilities . . . threaten to cripple our nation's overseas capability." And GAO reported in January 2001 that "The need to adequately protect employees and their families from threatened terrorist attacks overseas may very well be the single most important management issue facing the State Department."

I quickly realized that significant organizational and management reforms would be needed to ensure the efficient provision of safe, secure, and functional facilities for our personnel abroad. With the strong support of Secretary Powell, I have instituted fundamental reforms in the structure and operations of what is now OBO, and I am determined to continue working to improve its operations.

My first order of business as Director and Chief Operating Officer of OBO was to take advantage of its elevation to Bureau status as the occasion for a comprehensive reorganization. OBO's new structure reflects the life cycle of our properties: Planning and Development, Project Execution, Operations and Maintenance, and Real Estate and Property Management. Equally fundamental is a new organizational philosophy: every employee at OBO must be accountable, just as the organization as a whole must be held accountable for performance, and both senior management and staff must focus on results, not just business as usual.

OBO and the Department have put in place a number of new management reforms to improve our ability to accomplish its mission:

- A Long-Range Overseas Buildings Plan to establish construction priorities among posts, based on a weighing of security risks and practical capability to execute projects. The LROBP sets out in detail how the Department will address its many competing facilities requirements over the next six years. It is the linchpin and strategic roadmap for State's Overseas Buildings Operations. The first Plan, prepared in July 2001 and revised in April 2002, encompassed Fiscal Years 2002 through 2007. The second annual edition of the Plan, which is being released this week, covers FY 2003 through 2008. It

includes 75 security capital projects estimated at more than $6.2 billion, 9 other regular capital projects totaling about $1 billion, 80 major rehabilitation projects estimated at $640 million, other compound security upgrades, post communications needs, refurbishment of representational residences, and planned real estate acquisitions and disposals.

- A systematic process to gather the most accurate information possible about long-term staffing plans not only of the Department of State, but also of other agencies and departments, including Defense, Homeland Security, Justice, and Treasury, who occupy many of the Department's facilities. The Department's interagency processes help assure that planning for new facilities is integrated with departmental and other agency staffing and post planning analyses.
- A holistic, business-case approach to evaluating real property lease, purchase, management, and disposal decisions.
- The use of Standard Embassy Designs for the first time in the Department's history, and modular construction where appropriate, both of which can improve quality, reduce costs, and shorten design and construction duration.
- Integrated Design Reviews and interagency coordination to ensure that our designs will meet applicable health, safety, security, and functional standards and serve the needs of all of the agencies who will be using the facilities.
- Monthly accountability and performance reviews of every project, which I personally conduct.
- An Industry Advisory Panel to take advantage of industry expertise.

- An Interagency Facilities Committee to provide a forum for all agencies that occupy Department facilities overseas to discuss their needs and concerns. We hope this Committee will enhance and promote ongoing communications with OBO and among the 26 Departments and agencies that have a presence overseas. The IFC has already met twice and will meet again this summer.

Building New Embassy Compounds. These changes have produced results. OBO's increased capacity has gone hand-in-hand with a dramatic increase in funding requested by the Administration and appropriated by Congress, for which we are very thankful. OBO obligated nearly $800 million in Fiscal Year 2002 for construction of secure New Embassy Compounds (NECs). The Fiscal Year 2002 Counterterrorism Supplemental provided OBO just over $200 million more for NECs in Kabul, Afghanistan, and Dushanbe, Tajikistan, and we have awarded contracts for those projects as well. The Fiscal Year 2003 Appropriation provided $750 million for security projects, and the Fiscal Year 2003 Emergency Supplemental provided an additional $149 million for this purpose. OBO's Financial Plans for Fiscal Year 2003 capital security projects are currently being reviewed by the relevant Appropriations subcommittees.

As a result, OBO is currently planning and executing new facilities on a larger scale than the Department has ever managed before. As of today, OBO has 19 New Embassy Compound (NEC) projects underway, involving $1.4 billion, and we intend to obligate funds for another 10 NEC projects with a total value of $850 million in Fiscal Year 2003. I believe that OBO has the capacity to manage $1.8 billion in NEC projects on an annual basis.

In March, Under Secretary Grant Green and I had the pleasure of presiding over the dedication of our New Embassy Compounds in Nairobi, Kenya and Dar Es Salaam, Tanzania, replacing the embassies that were destroyed in 1998. We are also cutting ribbons this year to open New Embassy/Consulate Compounds in Istanbul, Turkey, and Zagreb, Croatia. By the end of 2003, OBO expects to have under construction New Embassy Compounds in Abuja, Nigeria; Beijing, China; Cape Town, South Africa; Conakry, Guinea; Dushanbe, Tajikistan; Kabul, Afghanistan; Phnom Penh, Cambodia; Tashkent, Uzbekistan; Tbilisi, Georgia; and Yaounde, Cameroon.

All of these new facilities are secure, safe, functional, and aesthetically appropriate to their surroundings. They will provide excellent diplomatic platforms for the execution of U.S. foreign policy for decades to come.

Cost Sharing and Rightsizing. Rightsizing the U.S. presence overseas is a vital precondition for the achievement of OBO's mission. Our goal is to build facilities of the right size and configuration in the right locations, and accomplishing that objective requires that the Government make thoughtful decisions about what level of staffing should be located at each post. This need is particularly important at those posts where the Department is scheduled to construct New Embassy Compounds, which must be designed to serve U.S. Government needs for the next half-century. To meet this need, we are taking the following steps:

First, OBO is instituting a new approach to projecting future staffing that we believe is more in line with the existing Federal budgetary realities. In preparing for the FY 2005 update of the Department's Long-Range Overseas Buildings Plan, the Department has instructed posts to conduct a zero-base evaluation of projected staffing

levels for new embassy compounds. The Department's Regional Bureau and any affected agency will be expected to provide a full justification explaining the need for its proposed level of staffing. This justification must include reason to believe that funding and personnel will actually be available for the projected staffing, not just that a perceived policy need exists. The Bureau and agency must be prepared to brief the Office of Management and Budget (OMB) and the Congress with regard to staffing levels, especially where they call for increases over the current authorized levels. The Department will also ask the agency's headquarters and OMB to verify that the projections are plausible.

Second, over the last two years the Department and OMB have been developing a Capital Security Cost-Sharing Program that will dramatically accelerate our embassy construction program and encourage all Departments and agencies to rightsize their overseas presence. Just yesterday I briefed senior officials from more than 25 Departments and agencies about the State Department's proposal and its budgetary implications for them. The proposal would implement the OPAP Report recommendation for a new financing mechanism for embassy construction and supports the President's Management Agenda item on rightsizing. The President's FY 2004 Budget set forth the Administration's intention to implement this program through agency contributions beginning in FY 2005. This proposal is currently under discussion among the agencies that would be affected by this program.

Under the State Department Program, all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new secure, safe, functional diplomatic facilities. The Program would generate a total of

$17.54 billion to fund approximately 150 new embassy and consular compounds (NECs) over the 14 years FY 2005 through FY 2018. These capital costs would be allocated annually on the basis of the total number of authorized overseas positions of each government agency (including the State Department and the International Cooperative Administrative Support Service (ICASS), whose costs are distributed to all agencies that use the service). The per capita charge would be allocated based on four categories of positions, in recognition of the higher costs for construction of Chief of Mission and classified facilities and the lower capital cost for non-office support positions (e.g., drivers, craftspeople, warehouse workers).

When fully phased in after five years, the overall effect on agency budgets would be to add about 15% to the typical total cost of maintaining a U.S. Government employee overseas, assuming an average total cost of approximately $340,000 per person. The State Department would pay over 60% of the total amount of this fund. These funds would be used exclusively for the construction of secure, safe, functional NECs in accordance with the Department's Long-Range Overseas Buildings Plan.

As a complement to this Program, the State Department is expanding and formalizing the participation of all agencies in the procedures for setting construction priorities for NECs and for determining their size and cost.

In addition to accelerating funding for urgently needed secure facilities, allocating this capital cost to the sponsoring agencies will encourage each agency to rightsize its staffing.

Third, we propose to incorporate into the Capital Security Cost-Sharing Program an adjustment to address projected staff growth at posts where NECs are being planned.

The Cost-Sharing charge allocated to each agency would include in the count all projected positions at those posts where the staffing level has been used as the basis for determining the size, configuration of space, and budget for a New Embassy Compound. The Department and OMB believe that attaching this financial consequence to the projected level of staffing would encourage all agencies to conduct more careful reviews of projections to assure their feasibility and accuracy.

The combination of administrative reforms in the planning, design, and construction of new embassy compounds and the implementation of the cost-sharing program and related rightsizing incentives will go a long way toward implementing recommendations of OPAP and GAO for long term planning and construction of new facilities and for proper operation and maintenance of existing facilities.

Managing Overseas Real Estate. The rehabilitation, maintenance, and repair of our existing real property assets are major undertakings in themselves. In Fiscal Year 2002 OBO obligated $190 million for rehabilitation, security upgrades, and other major projects. OBO has 55 major rehabilitation projects underway and expects to initiate another 13 such projects with Fiscal Year 2003 funds, for a total of $552 million in rehabilitation and security upgrade projects in process. We have literally hundreds of smaller improvement projects, many involving security upgrades, that are conducted cooperatively with post personnel with funds approved by OBO.

Nevertheless, the backlog of unmet needs for rehabilitation projects is substantial. It will take years of funding to restore all of our existing properties to good repair.

OBO is working to streamline all of its procedures for managing overseas real estate through more efficient contracting mechanisms. Our broad knowledge of foreign

markets often enables us to negotiate substantial reductions in prices we pay for properties. We also exercise strict cost controls on residential housing for all overseas agencies. Our staff of real estate analysts reviews every request for a housing lease costing over $25,000 per year and ensures that each proposed unit is within the established space standards and does not exceed market rents in that location. We estimate that this control function saves at least 10 percent from the potential cost without such evaluation and control.

OBO is also vigorously pursuing the disposal of excess, under-utilized, and over-standard properties.[1] The significant changes in our security standards over the last few years have intensified the concern about excess, under-utilized, and over-standard properties in two ways: first, they have made more existing properties unusable and therefore appropriate for disposition; second, they have created an urgent need to marshal all of our resources to get our people out of harm's way as quickly as possible.

As stewards of the Department of State's real estate investments and as representatives of the taxpaying public, we recognize our obligation to realize the value of property that is no longer useful for the United States and to put that value to work where it is needed. Secretary Powell has given me clear directions and support to make the most efficient use of our existing real property, including disposal of those properties that no longer fit the needs of the U.S. Government.

The authority to use the proceeds of sale from overseas properties for the purpose of replacing and rehabilitating diplomatic and consular facilities, which was given to the Department in 1926, is a further incentive to pursue the prompt and economically sound

[1] GAO Report GAO-02-590, "Sale of Unneeded Properties Overseas Has Increased, But Further Improvements Are Necessary" June 11, 2002.

sale of properties that no longer fit the Department's needs and requirements. Over the years the Department, with Congressional oversight and approval, has put these substantial funds to work for the benefit of U.S. Government personnel overseas. The knowledge that funds from the sale of properties will go to improve overseas working conditions provides an incentive to attend to matters that are otherwise relatively low on the list of post priorities. I am providing for the record copies of the Department's Quarterly Reports on real estate transactions covering FY 2002 and the first half of FY 2003. These Quarterly Reports keep the interested Congressional Committees fully apprised of the Department's past and planned real estate transactions.

The Department has taken a number of steps to facilitate the disposal of excess, under-utilized, and over-standard facilities:

- OBO has taken important steps to improve the accuracy of its real property inventory over the last several years, as the GAO Report recognizes. We are continuing that effort. The Department periodically reminds all diplomatic and consular Chiefs of Mission and their staff of their responsibility to maintain accurate property records. To help perform that task, OBO has implemented new, friendlier software. Building on the framework of the Department's recently-completed "Open Net Plus" sensitive-but-unclassified global intranet, OBO's Real Property Application provides each post with user-friendly software to record and track property holdings. This information is automatically included in the Department's global real property database, which gives us accurate, current information on each of our overseas real properties.

- OBO has set up a Property Disposal unit with a staff whose sole responsibility is property disposal. Like everyone else at OBO, under our new results-based management system their goals are defined in their Performance Measures, and their progress is reported to me every month in our Program Performance Reviews.
- The Property Disposal unit has been given the necessary tools to perform its mission, such as Indefinite Delivery/Indefinite Quantity (IDIQ) Agreements for real estate brokerage, marketing, and appraisals worldwide to facilitate prompt evaluation and disposal of properties when needed.
- The Property Disposal unit has been assigned the task of "accelerated decommissioning;" that is, advance evaluation and prompt disposal of existing properties in cities where new facilities are constructed.
- To assist us in dealing with the cases where strong differences of opinion exist either within the Department or with another Department, OBO calls upon the expertise of the Department's Real Property Advisory Board. The Board is composed of executives from other Bureaus of the Department of State and real property management experts from the General Services Administration, the U.S. Postal Service, and the CIA, who have no vested interest in the outcome of particular proposals for property disposition. Its conclusions and recommendations are submitted to the Under Secretary for Management for final decision. The Board's review process ensures that difficult or controversial disposal issues are fully and fairly considered from all perspectives before OBO takes final action.

While the Department has not overcome the obstacles to disposal of certain properties, I believe we are making good progress in dealing with these difficult issues.

Unique Aspects of Managing Overseas Government Real Estate. As you know, the Congress and the Executive Branch have identified OBO in the Department of State as the single real property manager for diplomatic, consular, and other related civilian support properties of the United States Government overseas.[2] I want to again thank the Congress for its recent reinforcement of OBO's role as the single overseas real property manager, as recommended by the GAO, both in the Foreign Relations Authorization Act in the 107th Congress and in the Omnibus Appropriations Act in the 108th Congress.[3]

Effective management of overseas real estate requires a high degree of expertise and experience. It calls for complex, long-term, often irreversible commitments involving large sums of money and other resources. The Department of State has a 75-year history of deepening its knowledge to deal with these complex issues.

Foreign policy considerations are overwhelmingly important when overseas real estate is involved. As Congress has recognized, there are a number of reasons why centralized management of the U.S. Government's overseas real estate by the State Department is essential:

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[2] GAO Report GAO-02-790R, entitled Current Law Limits the State Department's Authority to Manage Certain Overseas Properties Cost Effectively, July 11, 2002, lays out the origins of this arrangement, from Congressional Report language, to OMB direction, to Department guidance documents. See page 2.

[3] Section 213 of the Foreign Relations Authorization Act, 2003, Pub. L. 107-228, reversed section 738 of the USDA Appropriations Act, which conflicted with the Department of State's role as the single real property manager. GAO Report GAO-02-790R had included in its recommendations, "Congress may wish to consider repealing section 738." More recently, section 215 of the Omnibus Appropriations Act, Pub. L. 108-7, modified an earlier appropriations act (Section 220, Pub. L. 106-554 App. A) that gave the Centers for Disease Control independent authority to lease real property overseas, restoring that authority to the Secretary of State.

- *Foreign Policy and Security Implications.* The location and character of the U.S. diplomatic presence is a high-visibility issue in most foreign capitals. Issues of site selection, security considerations, traffic flow, and zoning can easily become important symbolic political issues that affect, and in turn are affected by, the overall political relationship between the U.S. and the host government and people. Insensitivity to such concerns can be damaging to larger U.S. foreign policy interests and objectives. It can also lead to the expenditure of substantial resources on projects that are destined to fail. Conversely, while a business case analysis may suggest one course of action, non-economic considerations such as security and political symbolism will sometimes outweigh purely economic concerns. Without centralized management in the State Department, the risks of uncoordinated policies would be much greater.
- *Reciprocity and International Law Issues.* Every argument, claim, and technique the U.S. uses in its negotiations for and management of overseas real estate sets a precedent that other nations will try to use to their advantage in connection with their real property in the U.S. and elsewhere in the world. The applicability of international treaties governing diplomatic and consular properties creates special issues both for the U.S. abroad and for foreign government properties in the U.S. Among other things, foreign and international law place limits on the extent to which diplomatic and consular facilities can be used for purely commercial purposes. These restrictions limit

the Department's ability to convert or combine diplomatic properties with commercial uses, even though U.S. law may authorize such arrangements.

- *Unique expertise.* The negotiation and management of overseas real estate requires familiarity with legal and practical issues that are not found in domestic real estate transactions. Foreign laws governing property ownership, different approaches to zoning and land use issues, and currency fluctuation risks are among the distinctive characteristics of these transactions. OBO's international real estate specialists personally negotiate most of the major sale, purchase and lease transactions around the world. Their expertise is crucial in limiting our risk and improving our financial position in what are sometimes extremely complex property transactions.

I hope this testimony demonstrates the progress we are making in bringing rational and efficient real property management to OBO and the Department of State. Thank you for your interest and attention. I will be happy to address any questions you may have.

Chairman TOM DAVIS. Thank you very much.

Mr. Bitz.

Mr. BITZ. Good morning, Chairman Davis and members of the committee.

My name is Brent Bitz. I am executive vice president of Charles E. Smith Commercial Realty, a division of Vornado Realty Trust. I am here today representing the Building Owners and Managers Association International, the largest and oldest trade association representing the commercial real estate industry.

BOMA greatly appreciates the opportunity to appear before the committee to discuss how GSA and other Federal agencies can more effectively manage the Government's aging and underutilized properties. BOMA International supported H.R. 2710 and H.R. 3947 during the 107th Congress and looks forward to once again showing its support for similar legislation in the 108th Congress.

We are here today because BOMA's membership, owners, managers and investors in commercial office real estate are ideally suited and are eagerly awaiting the opportunity to enter the type of public/private partnerships envisioned by the GSA and the committee.

For private sector investors to participate in a public/private partnership, Congress must carefully balance the need for oversight with flexibility and the opportunity for a sound return on investment. Deals will not be done if they take too long and if unnecessary regulatory burdens diminish any returns the investor could hope to make.

Several different types of deals have the potential to appeal to private sector companies and provide clear benefits to the Federal Government. Outright sales of Federal buildings or land that is underutilized or obsolete could generate income for the Federal Government to purchase or lease space more suitable to its specific needs.

A long term ground lease could be an effective tool for office or warehouse space that may be in need of repair but is in a marketable location. The private sector company partnering with the Government would invest in the repairs, lease the space to private sector companies and make a profit through tenant rents. After the expiration of the ground lease, the building would revert to the Government who would inherit the improved property. The length of lease terms would need to tie into the underlying debt and equity financing of the project. Lease terms in excess of 50 years would be expected for major projects.

Subleases should also be considered where a Federal agency owns a property but is not occupying the entire building. GSA or the Federal agency should be allowed to rent the vacant portion of the building to private sector tenants. However, the Government does need to understand that restrictive operating practices such as the new high levels of security may seriously diminish the economic attractiveness of such subleases.

In a lease-back arrangement, the Government would have a private sector entity take economic control of a building and renovate it. The Government would have a first right of refusal option to lease the building back for a rent that would include a return on the building improvements. Unless the Government would guaran-

tee to lease back the building, there would have to be strong private sector demand for the space based on either location or physical attributes for this arrangement to work. The private developer would need a reasonable expectation that the building could be leased at a rate that would allow for investments to be recouped.

Transfers or exchanges of properties could help the Government dispose of underutilized or obsolete buildings in exchange for properties that more closely serve their needs. All of these should be allowed in cases where it makes sound business sense and results in the agency or GSA receiving fair market value. This would allow the GSA to look at each need within the context of their entire portfolio.

Chairman Davis, you and Mr. Perry of GSA mentioned the Hotel Monaco here in Washington as an existing successful example that we all could see. This is a very good prototype for consideration.

In summation, BOMA International supports congressional action on this issue. However, we must once again caution that GSA and the private sector will need flexibility in crafting these types of arrangements. Every building is different, every real estate market is different and every real estate transaction is different. The GSA and private sector partners must have the ability to enter into arrangements that are mutually beneficial. Otherwise, nothing will be accomplished.

Thank you for the opportunity to appear before you today. BOMA International welcomes the opportunity to work with the committee and provide additional expertise on these issues in the future.

Thank you.

[The prepared statement of Mr. Bitz follows:]

Written Comments of

Brent W. Bitz
Executive Vice President
Charles E. Smith Commercial Realty, a Division of
Vornado Realty Trust

Representing the
Building Owners and Managers Association
(BOMA) International

Before the
House Committee on Government Reform
The Honorable Tom Davis, Chair

Public-Private Partnerships

June 5, 2003

Building Owners and Managers Association (BOMA) International
1201 New York Avenue, NW, Suite 300, Washington, DC 20005
Phone: (202) 326-6365 Fax: (202) 371-0181
http://www.boma.org

Good morning, Chairman Davis and members of the committee. My name is Brent Bitz, and I am Executive Vice President of Charles E. Smith Commercial Realty, a Division of Vornado Realty Trust. I am here today representing the Building Owners and Managers Association (BOMA) International, the oldest and largest trade association representing the commercial real estate industry. I am pleased to have the opportunity to address the issue of public-private partnerships for real property.

Founded in 1907, BOMA International is a dynamic international federation of more than 100 local associations. Our 19,000 members own or manage over 9 billion square feet of downtown and suburban commercial properties and facilities in North America. The mission of BOMA International is to advance the performance of commercial real estate through advocacy, professional competency, standards and research. BOMA's membership also includes managers of public buildings. The General Services Administration, along with other federal agencies and state and local building departments, are a valued segment of BOMA's membership. From a personal standpoint, I have over 27 years of experience in the commercial real estate industry and I have overall responsibility for property management of Charles E. Smith's 21 million square foot portfolio.

BOMA greatly appreciates the opportunity to appear before the Committee to discuss how the GSA and other federal agencies can more effectively manage the government's aging and underutilized properties. BOMA International supported H.R. 2710 and H.R. 3947 during the 107th Congress and looks forward to once again showing its support for similar legislation in the 108th Congress.

BOMA's membership – owners, managers and investors in commercial office properties – are ideally suited to entering into the type of public-private partnerships envisioned by GSA and this Committee. And we eagerly await the opportunity to do just that. However, we caution you that, in order for the private sector to even consider such participation, the rules must allow for flexibility and the opportunity for a sound return on investment, and "red tape" and time delays must be kept to a minimum. In other words, deals will not be done if they take too long and if unnecessary burdens diminish any returns the investor could hope to make. However, we fully understand, and concur, that a careful level of federal oversight must remain.

As Congress explores the opportunity to encourage public-private partnerships, it is critical to understand the main thing the private sector will look for in any partnership is a return on invested capital. No one will enter into any arrangement with the government unless there is an expectation of economic benefit. We believe that several different types of deals have the potential to appeal to private sector companies and provide clear benefits to the federal government: outright sales, leases or ground leases, subleases, leaseback agreements, and transfers and exchanges of real property.

- Outright sales of federal buildings or land that is underutilized or obsolete could generate income for the federal government to purchase or lease space more

suitable to meet specific needs. Any type of underutilized property could be a viable candidate for this type of deal.

- An outright lease of an entire building could be very profitable for the federal government. In those cases, the government could lease to private real estate companies under a long-term ground lease. The length of lease terms would need to tie into the underlying debt and equity financing for the project. Lease terms in excess of 50 years would be expected for major projects. This type of an arrangement would probably work best with office or warehouse space that may be in need of repair, but is in a marketable location. The private sector company partnering with the government would invest in the repairs, lease the space to private sector companies, and make a profit through the tenant rents. After the expiration of the ground lease, the building would revert to the government, who would inherit the improved property.

- Subleases should also be considered where a federal agency owns a property but is not occupying the entire building. GSA or the federal agency should be allowed to rent the vacant portion of the building to private sector tenants. The government needs to understand that restrictive operating practices such as Level IV security may seriously diminish the economic attractiveness of such subleases.

- The "leaseback" concept should also generate private sector interest. Here the government would have a private entity take over economic control of a building and renovate it. The government would have a first-refusal option to lease the building back for a rent that includes a return on building improvements. Unless the government would guarantee to lease back the building, there would have to be strong private sector demand for the space based on location or physical attributes for this arrangement to work. The private developer would need a reasonable expectation that the building could be leased at a rate that would allow for the investments to be recouped. This type of arrangement becomes much more problematic if the property is a special purpose building that did not have private sector demand.

- Finally, transfers or exchanges of properties is a common asset management tool utilized by the private sector that could help the government dispose of underutilized or obsolete buildings in exchange for properties that more closely serve their needs.

All of these should be allowed in cases where it makes sound business sense and results in the agency or GSA receiving fair market value. While the GSA has the ability to do some of this now to a limited extent, the federal government's scoring and budget constraints do not always allow the full range of options the GSA needs. This would also allow the GSA to look at each need within the context of their entire portfolio.

One example of a public-private partnership that appears to be a win-win is the Hotel Monaco, here in Washington, DC. The historic building once in need of repair has

become a thriving luxury hotel that has retained and enhanced the historic appeal of the building. This project was completed only because of a legislative caveat that applies only to historic properties.

When BOMA International testified before the Subcommittee on Technology and Procurement Policy on October 1, 2001, the full impact of 9/11 and the change in the need for security in public and private buildings was still not fully realized. The General Services Administration has been developing new security standards for space it owns and leases, and these standards could also impact public-private partnership agreements. The new standards are expected to include five levels of security (with Level V necessitating the most stringent security requirements). Level V would apply only to buildings 100% occupied by the federal government, while levels one through four would need to be applied in buildings occupied by both government and private sector tenants.

In a ground lease arrangement, for example, if the federal government requires its private sector partner to meet Level IV security requirements, the private sector investor would need to invest more money in the security upgrades and therefore would expect a lower return on investment. This may diminish the private sector interest and is an example of why flexibility must be given to the GSA.

Crafted carefully, public-private partnerships will provide benefits for the federal government and their private sector partners. In addition, our nation's cities and counties will also realize substantial benefits. Federal buildings are exempt from local property taxes; once a private sector entity takes over financial control, they will be subject to property taxes. Every city, town and state experiencing budget shortfalls should support the conversion of an obsolete federal property into a thriving, revenue-producing building.

In summation, BOMA International supports Congressional action on this issue. However, we must once again caution that the GSA – and the private sector – will need flexibility in crafting these types of arrangements. Every building is different, every real estate market is different, and every real estate transaction is different. The GSA and private sector partners must have the ability to enter into arrangements that are mutually beneficial. Otherwise, nothing will be accomplished.

BOMA International welcomes the opportunity to work with the Committee and provide additional expertise on these issues. BOMA staff may be reached at (202) 326-6365. Thank you.

Chairman TOM DAVIS. Thank you very much. Let me start the questioning.

Ms. Springer, what we are trying to do is give the Federal Government ability to lease, joint partner, selling, that clearly from the testimony of everybody here saves the Government money and allows us to do innovative things with property that right now is deteriorating, that we have carrying costs on, and yet we get back scoring from the Congressional Budget Office that is a net decrease to taxpayers. I don't understand it. We have been dealing with them. How do we get around that? Any thoughts?

Ms. SPRINGER. There are a couple of thoughts I would have. First, as I mentioned in my testimony, we believe these sales of excess properties would not occur absent the flexibilities in the legislation. To the extent there are outlays with respect to purchases off those sales, we believe the proceeds of the sales should also be accounted for in any scoring. In the scoring from last May they were not recognized. That is one point.

Chairman TOM DAVIS. Let me ask you this. Could we draw a criteria in the legislation that would ensure that?

Ms. SPRINGER. What we have suggested is exactly along that line which would be, speaking for the administration and not just OMB, not only utilization of the proceeds but also any new private/public partnership transaction should be made subject to appropriation. We believe that addresses that issue.

Chairman TOM DAVIS. Commissioner Perry, would that still give us the flexibility you need to carry this out?

Mr. PERRY. Yes, I think it would, and you hit on obviously one of the real sticking points in this and that is the budget scoring process. In addition to the points Linda made, I think the legislation includes a lot of things that accommodate what some people would be concerned about in that area. For example, the Government would have limited liability, that there would be no guarantee as to the fact that a Federal tenant would move into a building, we would not guarantee the loans or financing of the private sector partner in the case of these items. So when we went through that discussion last time, we did talk about a lot of things we would do in administering public/private partnerships that are in fact to some extent limiting but in fact address some of the concerns the scoring people had raised. I think those are addressed.

Chairman TOM DAVIS. This is so common sense. I think everybody has spelled out here, the representative from the private sector, Governor Janklow in his earlier testimony, you want to give your executive branch the tools they need to do common sense things to protect a real estate portfolio of $328 billion. It is not your fault the law is written in such a way now that your hands are tied but getting it through here has two major problems. One is the scoring issue, getting it through the Congressional Budget Office where they are looking at only one side of the equation. We have to satisfy that, I think.

Second is the jurisdictional fight between the 1949 Act and the 1959 Act that go between the Transportation Committee and this committee. We may just have to escalate this. Mr. LaTourette and I are working on it. We have staffs that are conscious of committee jurisdiction but this is something we are going to have to try to

write the law and share jurisdiction, whatever, as we move through but those are the two things we need to focus on, it seems to me.

The rest of this is pretty common sense. Mr. Waxman and I last year negotiated some language and we have some differences over how to best do it and how much authority you give your different agencies, the GSA and checks and balances, but those can be worked through as well.

As I said, we have a $328 billion portfolio. We are spending billions on maintenance and upkeep of excess or under utilized property that wastes literally billions of dollars over time. Commissioner Perry starting with you, I would like to hear what tools you would really like to have in an ideal world that would give you the flexibility to run this as professionally and in the taxpayers' interest as you could?

Mr. PERRY. I think among the various challenges we face, the biggest one or certainly one of the bigger ones is this issue of addressing the large and growing backlog of deteriorated and vacant space. We find that it is sort of a death spiral. First of all, as we have this deteriorated space, we either have to have Federal workers working in substandard space, which we do in some instances, or also the agency will move to other space, oftentimes to leased space. We might think we are solving the problem but we are continuing to incur the expense and we are adding expense on top of that when agencies move to leased space.

The public/private partnership portion of this would enable us to begin to address some of that $5.7 billion backlog as it relates to GSA and a larger number in other agencies, if you add all the other agencies together. So that management practice would be very helpful to us.

I would just mention that on previous occasions when it appeared that management flexibility was going to be granted to us, we began to move in anticipation and getting our people ready with the training they need to move ahead identifying specific projects that we would work on. Everyone at GSA was ready to go.

I will tell you that when we weren't able to get it across the finish line, that was a significant setback in terms of our peoples' thoughts but we are very, very hopeful that as we gear up this time around that we will be able to put this in place.

Chairman TOM DAVIS. Let me make this pledge to you and I think Mr. LaTourette will also, we are going to get something done this time and we have some difficult issues to work through, both jurisdictionally and scoring and the like but we know how important this is. The importance of taxpayers trumps any other issues that may arise in my opinion. I know Mr. Waxman and Ms. Norton would agree with that. So we are going to work together as quickly as we can to try to work through these issues at least on the House side. I will let you handle the Senate side. We don't handle the other body and make no promises on what happens there but we need to initiate it and get this through here.

As I said, it wasn't the Transportation Committee that held it up last year, it was a scoring issue we had with CBO and coming back with some additional language may be able to solve that.

Mr. PERRY. I agree with you and my understanding is those three things. One, as you point out, the question of scoring and

that can be dealt with, I am sure it must be dealt with. The other you have also talked about is the issue of jurisdiction and I think we are going to have to find a way to move beyond that because as I say, Rome is burning, we are still having problems. The third one that has come up is the question of the retention of proceeds and whether or not that can be done in such a way that the congressional committees will still have oversight of how those proceeds are used and whether or not this is in any way a violation of the appropriations process. Here again, we have incorporated ways in which to deal with that so that the committees are made aware of what is being done and have an opportunity to authorize it.

Chairman TOM DAVIS. Great. Thank you very much.

Who should I recognize on this side. Mr. Ruppersberger was here first, Ms. Norton is ranking on the Transportation Committee. Who would like to go first?

The gentleman from Maryland is recognized for 5 minutes.

Mr. RUPPERSBERGER. This issue is really relevant to us as far as the cost point of view, the performance point of view and we are probably talking about hundreds of billions of dollars. Would you agree with that? I see everyone shaking their heads yes.

I think before we really decide what we are going to do we have to set a strategy. That strategy, I think the first thing is to get the inventory, the information. My first question is basically we need to get a comprehensive inventory. I don't know whether we have the expertise in-house or not to not only identify all the properties we have, the type of properties, whether they are deteriorating, are there asbestos issues involved, as far as the heating, is the building or the property really worth keeping or should we get rid of it because every property you keep is going to cost you money, especially the ones you are not using.

My notes here say because of the budget and the tax cut this year, we have had to cut Veterans' spending and I have information here that the Department of Veterans Affairs spends $235 million annually to maintain vacant properties. That money could be used to help veterans when we need money.

My question is, first, do we have the comprehensive data base and information that we need to start to implement a program to deal with this massive issue. Do we have that type of data base, that information?

Mr. PERRY. If I may venture and answer first, I will answer that the answer is yes, we have enough information to proceed with this right away and then I will qualify my answer a bit and say we don't have a comprehensive, accurate and reliable data base of all the Federal Government asset information. We will continue to work to put that together.

GSA, for example, in our portfolio management process, identifies every asset under our management, we do know with some specificity where the vacancies are, where the under utilization is, where the deteriorated buildings are. We have more than enough information to keep ourselves busy in the office space type arena which is where this problem is the greatest, I believe for a very long period of time based on the information we have.

As we step out and begin the process, we can work with the other agencies to refine the governmentwide data but we have the GSA portion of that which is a sizable part.

Mr. RUPPERSBERGER. GSA is really the agency dealing with most the agencies on that, correct?

Mr. PERRY. No, we have 10 percent of the Federal Government's total, most of the office type.

Mr. RUPPERSBERGER. What do you need from a resource point of view to be more aggressive to make sure this happens?

Mr. PERRY. The major thing we need is the authorization to use these management practices which we do not have today.

Mr. RUPPERSBERGER. I think of the management practices Mr. Bitz brought up. One of the things is a government lease is probably one of the best leases you can take to get financing or whatever. Would you agree, Mr. Bitz? We have a great leverage with respect to that lease but we have to deal with today's world and today's business environment and work with the business community. I heard testimony today we feel purchasing is probably the best way to go but if you don't have the money you might have to have a long term lease with an option to come back. That is the issue.

I would like someone else to address the issue because if we want to get anything out of this hearing, we are talking about where we need to go and do you need Congress to act on this. The chairman has said he wants to move forward.

Mr. UNGAR. I would like to add we would agree that at least some of the agencies now have enough information to get started but as he indicated, the inventory of information GSA has is not as comprehensive or complete as it needs to be for a couple of reasons. One, GSA depends upon over 30 agencies to provide the information it needs and some of those agencies do a better job than others in providing complete, current and accurate information.

One of the pieces of the previous perform proposal was to mandate that an inventory be kept and give GSA additional leverage and the individual independent agencies like Agriculture and Energy leverage for securing resources for providing accurate information.

Another area where some agencies have better information than others is identifying vacant and underutilized properties. Some of the agencies we have contacted do not have this kind of information centrally. GSA does have a regulation that requires agencies to annually identify this kind of information but unfortunately the regulation does not require the agencies to pull it together centrally within that agency or to report it to any central location within the Federal Government. That is a gap that probably needs to be addressed.

Mr. RUPPERSBERGER. My time is up. The other issue I would like to address if I had the time is maintenance which if you spend $1,000 it might save you $1 million down the road.

Mr. SHAYS [presiding]. We will definitely cover that territory.

Mr. LaTourette.

Mr. LATOURETTE. Mr. Ungar, Administrator Perry talked about the death spiral and the $5.7 billion of unmet requirements to rehabilitate buildings. Is it your experience and observation that this

condition exists because of a lack of willingness on the part of the GSA or lack of resources, or both to address that problem?

Mr. UNGAR. I think it is primarily a lack of resources. We have looked at this issue at GSA and other agencies. At GSA, there were some management issues that we suggested GSA could improve in terms of getting better information and perhaps improved planning but the real issue was resources and tools that have been talked about to deal with this problem.

Mr. LATOURETTE. I think most people who have looked at it have looked favorably at these public/private partnerships. Does GAO have an opinion as to who would be best able to manage these public/private partnerships for the disposition of Federal properties?

Mr. UNGAR. We haven't looked at all the agencies. We certainly think that, whoever is going to do this on behalf of the Federal Government needs to have appropriate expertise. We know that all 30 agencies would not have the kind of expertise needed to deal with these complex arrangements. For example, recently the Department of Defense which obviously has a lot of property was given enhanced use lease authority or expanded authority to do leasing and in effect, engage in public/private partnerships. We looked at this within the last year or so and found it has only implemented that authority in a very limited way. One of the reasons is because it didn't have appropriate expertise.

If this authority were granted governmentwide, there would probably need to be some control in place to go through an organization like GSA or a comparable organization to make sure the Government is doing the appropriate thing.

Mr. LATOURETTE. The other issue, Ms. Springer, CBO was mentioned but OMB also engages in scoring as well. I would ask if the goal is to maximize the Federal dollar? Is the OMB considering changing its scoring rules to allow leases of longer than 10 years?

Ms. SPRINGER. OMB is currently looking at leasing scoring and I think that is an issue they are going to be looking at as part of that effort. That has arisen as a result of the anticipation of this legislation and what is going on in agencies like VA that have current opportunities today. I would expect that would be a part of it.

We would also look forward to working with the committee and the committee staff and CBO as we go forward.

Mr. LATOURETTE. Your testimony and your comments in response to the chairman's question of do you support the notion, as does everybody that I think has looked at this issue of public/private partnerships, but been made aware that OMB has not released a prospectus that would allow the outlease of the old Post Office Pavilion. Are you able to give us an update on where that stands at the OMB today?

Ms. SPRINGER. I do not have that with me today but I could get back to you with that.

Mr. LATOURETTE. If you could maybe send the committee something in writing, I would appreciate that.

Mr. Perry, first of all, let me publicly commend you for the work you are doing on behalf of the administration and the country. I think folks are going to be more than impressed with the legislation Ms. Norton wrote allowing the public/private partnership at

the Southeast Federal Center. I think that is going to be something we are all going to be very proud of.

As all committees talk about the idea of these public/private partnerships, do you foresee any difficulties if the GSA was tasked with the administration of those public/private partnerships? I guess specifically I am asking whether or not GSA is in a position to handle the additional workload that might be occasioned as a result of that change in policy?

Mr. PERRY. Given our mission to be the stewards of the real properties that have been entrusted to us, we will handle that as a priority. We have already identified it as a priority and we will rise to the occasion of getting it done.

Will that be a challenge for us? Of course it will but my answer to your question is yes, we are fully prepared to take on this responsibility. We are advocating for it, we have the people who have the expertise, we have processes we are using to identify how to make this work and we know we can do it.

I would add to that given the degree to which this backlog has grown, now that it is $5.7 billion, this is something that will have to be taken on over a period of time. We obviously will not complete it in a year or two but we will begin the journey, we will stay the course and using appropriated funds as well as the moneys that might be available to us through these other techniques, we will make a significant improvement in the near term.

Mr. LATOURETTE. Thank you.

Mr. SHAYS. We will go to Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

No one perhaps has been more frustrated with Federal property policies than this member in large part because this is the Nation's Capital with a fair amount of unused Federal property.

My good friend, Chairman Davis, made a very important point that I really think as we look at cause and effect, needs to be put on the table. Read my lips, scoring and scoring has not always been done for Federal property the way it has been done for the last decade. Indeed, the way we score the management of Federal assets is unique. We who give lip service to the private sector don't have a capital budget or even a Federal version of a capital budget. We manage assets through scoring rules that have no application to the private sector, would be considered abundantly wasteful, nobody in his right mind in the private sector would use them, the way we score leases, for example.

Therefore, this hearing is important but it is important to put on the record that this is not a hearing about why GSA has just allowed a backlog of properties to develop when all it had to do was go out and do something with them. The scoring rules of the United States of America obviously made that impossible. So do the priorities of our country as to how we should spend money. That is why the notion of public/private partnerships are indeed the only way to go.

Mr. Perry, my bill on the Southeast Federal Center was done by the time you came to GSA but I take it you are aware of the Southeast Federal Center?

Mr. PERRY. Yes, ma'am, and I specifically mentioned that as an example or model in my opening remarks.

Ms. NORTON. Is this a model that GSA would be prepared to replicate throughout the country, the use of Federal land, the Federal Government retains the land but allows the private sector to build on it, to use it with the returns coming to the Federal Government?

Mr. PERRY. Yes. I believe there are a number of examples of other properties that we manage where that could apply. We talked earlier about a property in Seattle, our Federal Center there which is along the waterway as was the case with the Southeast Federal Center, very desirable location, happens to exist in a market where the market conditions would be conducive to this type of public/private investment.

There is a continuing Federal need but that could be mixed or associated with some private sector or mixed use needs. This property happens to be 37 acres which is of sufficient size to do something like that. So there are those examples.

Then there are some individual buildings where the same process could work. I believe there is more than we could handle in terms of identifying how this authority could be applied.

Ms. NORTON. In the case of the Southeast Federal Center, to get around any possible scoring problem, we simply did the natural thing, we left open the private sector to come back to us to tell us what to do with the property which is the way it ought to happen anyway if you are in partnership with the private sector. What does the market want to do and therefore this obviously is not a Federal scoring problem.

I note that the homeland security bill gave to the new department the right to acquire its own headquarters. My understanding is that the Department turned around and asked the GSA what to do, correct?

Mr. PERRY. That is correct. We are working with the new Department of Homeland Security in that area.

Ms. NORTON. I just mention this because it points up the need for expertise when you are dealing in property. I am a lawyer, I wouldn't begin to deal with property, even my house, without talking to a real estate lawyer.

Mr. SHAYS. The gentlelady's time has expired. If we could get to the other Members, I thank her for that.

Mr. Schrock.

Mr. SCHROCK. You can see from where I sit, I haven't been here many years and a couple of years ago I might have believed that when we said something was going to come out of committee and we would get it to the floor and provide relief for you, I might have bought it. I don't buy it anymore. We are the ones who should be down there testifying, you should be up here asking us why we haven't done what we are supposed to do. I think the monkey is on our back to get this done.

As my friend, Governor Janklow said, for God's sake, let us get it done. How many more hearings do we have to have to get this done? There are a lot of agencies out there, especially the Department of Defense, that are hurting because of all this excess property. That is why they are going to go through a BRAC here to get rid of some of that. We are tying your hands in the process.

Mr. Perry, you talked about PPVs. The military, as you know, is going to do that with regards to housing. The military shouldn't be

the Charles E. Smith's of the world, they should be fighting wars and let Charles E. Smith, and I am not promoting your company because I live in Hampton Roads and you are not down there, but PPVs I think are very important and can save our government a lot of money so we don't have to be in this maintenance crunch. You agree with that obviously?

Mr. PERRY. Yes, I certainly do agree with it and I agree with your earlier sentiment that we must really make a proactive step. We can't afford to continue to let this fester.

Mr. SCHROCK. If agencies had senior real property officers with experience in place to manage the portfolio, why wouldn't they be in a position to use management tools we have discussed today, namely to do PPVs?

Mr. PERRY. Well, they wouldn't be able to use the public/private partnership because it wouldn't be authorized. The statute would prevent that but they certainly could use other good management practices for life cycle management of assets including better planning, thoughts about maintenance and disposal but would still be limited to not use public/private partnerships under current law.

Mr. SCHROCK. Why can't we change that?

Mr. PERRY. That is what we are here to ask.

Mr. SCHROCK. You should be asking that question. I understand.

The CBO scoring kind of bothers me too, Ms. Springer. Maybe there is a problem with the scoring. I agree with Chairman Davis that when you score something and getting rid of excess property is going to cost more money, something is wrong there. I don't quite understand that. Is the scoring the problem? Is that voodoo economics as I have heard people say from time to time?

Ms. SPRINGER. One of the first things I looked at when I came here last fall was scoring for this particular piece of legislation and I had the same reaction you just did. Certainly with respect to use of proceeds when there is no recognition of the proceeds themselves and it is viewed solely as an outlay, I think that needs to be addressed.

Either way, we believe at OMB and I know I speak for Mr. Perry, that we can work with the committee to resolve that issue. That is an obstacle we need to take out of the way. Let me say without a bill, we won't even be getting to the scoring. It is important for us to get the bill. Whichever version it turns out to be, we need to get the bill. That is what we are here to say.

Mr. SCHROCK. This excess property didn't create any revenue. This is the same issue revisited and is creating revenue. We need to get some of this stuff off the rolls.

Mr. Ungar, I think you wanted to say something?

Mr. UNGAR. I just wanted to add that I wouldn't underestimate the difficulty and complexity that will be associated with dealing with the scoring issue. One of the main obstacles—one of the issues that CBO raised is—that it would basically account for or score these partnerships as a lease-purchase arrangement which is another issue aside from retaining funds.

Scoring is a double edged sword. There certainly is a very good reason for the scoring process. On the other hand, it unfortunately results in some adverse consequences. One thing the committee might want to think about is perhaps forming, getting, or prompt-

ing some sort of a working group with members of the committee staff, OMB, CBO and maybe relevant committees and agencies like VA and DOD to really tackle the scoring issue.

Mr. SCHROCK. I agree. Mr. Chairman, that is something we need to get our hands around because it sounds like that is one of the main flies in the ointment. If we could get that resolved, then we could go forward on this a lot quicker than we are.

Mr. Ungar, the vacant St. Elizabeth's Hospital building is historical, which means you can't knock it down, which means you have to protect it. What are you going to do with that building?

Mr. UNGAR. That is a tough issue. HHS and GSA are wrestling with that now. Because it is historic, they have to work within some constraints and work with the folks who administer the provisions of that act. I don't know that it is impossible to knock it down. VA I think and maybe other agencies have had some experience with this and have been able to work with the Historic Preservation people, but it does make it much more complicated and takes much more time.

Mr. SCHROCK. If you want to know how to knock down a building like that, come see me. We did it with 11 buildings at the Naval Base in Norfolk that were historic. We said baloney, we won and tore them down and new buildings are there now. So it can be done.

Mr. SHAYS. The gentleman's time has expired.

We have a committee meeting after and we can allow for a second round if there a few folks that need to ask some questions.

Mr. Cooper, you have the floor.

Mr. COOPER. I thank the gentleman from Connecticut.

As I understand it, the rationale for treating public/private partnerships like operating leases or direct appropriations, forcing an up-front score from CBO is something OMB doesn't agree with but has OMB been working with CBO to resolve this internally? I realize the gentleman from Virginia's request for a working group on this committee but the new head of the CBO came from the White House. I would have expected some sort of coordination on this issue. Is that right?

Ms. SPRINGER. OMB is taking a fresh look at scoring of these leases as the proposal is seriously being revisited, so we contemplate working with CBO.

Mr. COOPER. Has CBO put up fixed resistance? Are they battling this to the end or they just haven't had meetings on it yet?

Ms. SPRINGER. We are at the beginning stages of essentially restarting this discussion with them on it.

Mr. COOPER. Another question would be the issues addressed by CBO can be addressed by making the proceeds from any property sales from the exercise of new private/public partnership authorities granted under the proposal subject to appropriations. I don't understand that. How exactly does making the exercise a public/private authority subject to appropriations address CBO's concerns?

Ms. SPRINGER. What we had in mind would be as each opportunity arose for entering into a public/private partnership or using the proceeds of a sale for a new purchase, that opportunity would be evaluated and scored on its own merits and according to what-

ever type of lease it was, whether operating, capital or what have you and would be subject to the full review with Congress from an appropriations standpoint, rather than anticipation up front that wouldn't recognize specifically all the merits of each one, so it would be subject to an appropriation rather than just scoring of an anticipation.

Mr. COOPER. I am still not sure I understand that but I yield the balance of my time.

Mr. SHAYS. The gentleman yields. We are going to Mr. Turner.

Mr. TURNER. Thank you.

As I stated in my opening comments, one of the things I am very concerned about is the issue of a policy of abandonment of cities. One of the examples we have in front of us says, "GSA also owns a courthouse in downtown Jacksonville, FL but we vacated in less than a year. Although there are Federal agencies in the Jacksonville area that need space, the agencies would prefer to locate in suburban locations because of access and parking constraints downtown. The city of Jacksonville has expressed interest in acquiring this building. The freedom to manage the proposal would give GSA the authority to sell the building to the city, use the proceeds to build in a suburban location that would be more desirable for prospective Federal tenants and probably cheaper."

First, I want to say that in looking at the proposals for increased flexibility, I think the flexibilities themselves are very important but the outcome is what I am concerned about because basically what we are talking about doing to host communities is we are saying because we have deferred maintenance in these buildings, we have created something that is a blighting influence and we are going to leave, you are going to have the responsibility. I am certain the city of Jacksonville is not acquiring this property because it is a gold mine. They are acquiring it most likely because it doesn't have any other marketable use. It will probably require significant subsidy by the local community to bring it up to something that is viable.

Then we are going to take the Federal jobs, move them out to the suburbs because our rules are going to provide a preference for suburban locations instead of cities, so all the people who would eat lunch, all the people who would shop, all the people who would pay payroll taxes in the Federal jobs that would help support the community that is now subsidizing blighted influence we are leaving behind are going to be gone off to the suburbs.

As a former mayor of a city I have dealt with this issue of looking at Federal rules as to where jobs locate. Working with the Postal Service, we were told in an initial attempt to get Federal jobs located in our downtown area that because of the rules, we would be virtually unable to compete.

Ultimately we were able to win, but we were often told that the constraints of issues of convenience and parking, all of the definitions that we would give to a normal, downtown, urban area were actually used against us as opposed to in favor of an urban core.

We all know there are Federal mandates that burden our urban cores, Brownfields, social services, special needs populations, public housing, environmental mandates without compensation, infra-

structure burdens for supporting the entire metropolitan urban area.

I am very concerned we are getting a Federal policy that is almost anti-cities. As I look at this, it goes on to say "you may provide a lease back option to the Federal Government to occupy space in any facility, require construction, repair or renovation by the non-governmental entity provided that the agreement does not guarantee government occupancy in any subsequent agreements. To lease back in such facilities must be in accordance with the competition requirements of Title III."

I would like you to speak on the issue of why our Federal rules, as the process goes, if we are going to go to leasing, don't have a preference for us to support and maintain our Federal jobs in our urban core with the tax bases necessary and where the synergies of workers are necessary in order for us to maintain our cities which, as you know, are the jewels of this country?

Mr. PERRY. Thank you for that question. That is a very important point with two parts to it. One has to do with the exchange of property. If my facts are right, that is something that we would be doing under our present authority which does not enable us to enter into public/private partnerships. Rather, if we have a situation like the one you describe, the only tool available to us today is to do a like kind exchange where the city would grant us something and we would grant them something so that we could provide an appropriate workspace for Federal workers and the city would do the best it could do to protect the development in the urban core.

If we had the authority we are talking about today, that would have enabled us to do the development of the downtown facility. In fact, the list we prepared entitled our "100 Most Egregious Cases," many were in fact Federal buildings in the urban core that had we had this authority or as we get this authority, they would be candidates for development in the downtown as opposed to our having to go to a second option which is to exchange property which is the only authority we would have had today.

Mr. TURNER. My time is almost up so let me just add to that. It seemed to me in reading it that you are subject to the same rules in determining what would be the competition property, the one that you are disposing. Those rules might cause it to have a suburban preference. Is that not accurate?

Mr. PERRY. I can't read that into that. If I understand the issue, if there is a building and we had the ability either through appropriation or through public/private partnership bring that building up to standard, we would do it at that location. We wouldn't get into the swap.

You could assume possibly the agency had a mission related reason why it wanted to move but lacking that, our approach, our policy would be to opt for the urban core location.

Mr. TURNER. That is great to hear.

Chairman TOM DAVIS [presiding]. The gentleman's time has expired.

Mr. Janklow.

Mr. JANKLOW. Thank you.

I would like to apologize for my preliminary remarks made when I came in here. I had read some of this testimony as I had indicated. I thought we were discussing a country where the authority to acquire, manage and dispose of property was limited, freedom to effectively manage holdings was severely restricted, separate authority to give people flexibility to out lease and dispose of property under specific conditions wasn't allowed, I thought we were talking about a country where the National Park Service will think it is really a great management technique in fiscal year 2003 to develop a facility inventory to see what buildings it maintains and perform asset assessments to determine the condition of these assets and establish a baseline facility condition index and that would be an accomplishment where we spend $50 million more in acquiring a patent office than we need for the taxpayers while everybody sits around talking about the difficulty to fund things like education in this country and medical issues and the other kinds of issues that we deal with, that environmental laws stifle what it is we are trying to do with property and we have inventory and historical problems. Frankly, I thought I walked into a meeting on how the old Soviet Union operated. I had no idea we were discussing the United States of America until I heard you people testify. I would have never made those comments had I known it was my country. I thought we were talking about the Peoples Republic of China or the old Soviet Union.

Given the fact we are talking about the United States of America, how do we fix this? This is insane. This is absolutely insane. Everybody in Congress knows it and we sit around talking about our specific projects. We don't want to give you any authority to do this for all of America, so every one of us can find a project or two in our State or city that we want to make a pilot project.

I don't care what party you are in, Presidents of recent vintage don't have any trouble hiring top, competent talent to come into the government to work. Are you folks really too dumb to do this? Are you crooked? Are you on the take? Do you want to be on the take? What is it that prevents us from giving you the authority? In your perspective, what is it that prevents us from giving you the authority to do it or are we too stupid or on the take? [Laughter.]

Chairman TOM DAVIS. Let us see if there is a volunteer to take the question.

Mr. UNGAR. I can't answer your last question but in terms of why this problem has gone on so long and why it hasn't been solved, I can address these.

Chairman TOM DAVIS. Mr. Ungar, you are fully vested in your retirement?

Mr. UNGAR. Yes, absolutely and I will say that I can leave at any time.

Mr. JANKLOW. I used to be able to pardon people but I can't anymore.

Mr. UNGAR. Maybe you can put in a good word with the President or the Comptroller General depending on what happens.

Mr. JANKLOW. I will do that. We will score you OK.

Mr. UNGAR. It is a very, very complex problem and there are many factors to it. One is leadership and a plan.

Mr. JANKLOW. Go to No. 2.

Mr. UNGAR. No. 2 is legislative action.

Mr. JANKLOW. Go to three.

Mr. UNGAR. Three would be individual actions by Federal agencies to basically do the right thing once they have the tools to do that.

Mr. JANKLOW. What is four?

Mr. UNGAR. Four would be to make more resources available. Five would be maybe even higher up in your order, addressing the scorekeeping rules so they make sense from both a budget standpoint and a real property management standpoint.

Mr. JANKLOW. Nothing you described is complicated. It is simple. It takes leadership and it takes the courage to move forward. It takes people that have the intelligence level to know the difference between right and wrong and when someone is getting ripped off and $2 million to maintain a post office every year, I come from a small State and you could buy a reading book for every first grade child in my State for $2 million. For what the post office is wasting every year to maintain a building in Chicago, you could buy a reading book for every first grader and an advanced reading course for the whole State of South Dakota. That is how ludicrous this all is.

Thank you, Mr. Chairman. I don't have any other questions. This is crazy and everyone knows it.

Chairman TOM DAVIS. Let me make one comment. We are going to be introducing legislation in the next week or so. There have been basically two problems legislatively. One has been the scoring issues which are arcane, which we are trying to work around with the Congressional Budget Office but the fact is you bring this bill forward at this time, you have to show offsets or it goes nowhere and significant offsets. We are looking at wording that will get around that.

Second are jurisdictional issues between what is called the 1949 Act and the 1959 Act that puts it before different committees. Mr. LaTourette, who is on both committees, has pledged to work with us. This is a priority for our leadership.

The third problem is going to be the Senate but let us take care of the House. We can do what we can do and I will tell you that we will have a bill out of here this year that meets your needs.

I want to commend Commissioner Perry. From the minute he stepped in, he headed GSA in Ohio.

Mr. JANKLOW. These are all competent people. Listen to them, they know what they are talking about.

Chairman TOM DAVIS. Exactly but he has taken the lead, made it a priority and we did get it through the committee last year before we ran into problems at CBO.

Mr. Waxman worked closely with us to make it a bipartisan but let us just make it a priority and move it.

Mr. JANKLOW. Thank you, Mr. Chairman. I bet these folks drive home every night from work and say I can't believe these idiots I have to deal with.

Chairman TOM DAVIS. They are under oath and I am not going to ask them.

Ms. Blackburn.

Ms. BLACKBURN. Thank you. It is always hard to follow the good Governor because he brings so much common sense to the table for all of us.

Mr. Ungar, I think you probably are sitting there looking at us and agreeing with everything Governor Janklow has said.

Mr. UNGAR. Yes, ma'am.

Ms. BLACKBURN. Being one from the private sector, I felt that probably was the thought running through your mind. Ms. Springer, is always a delight to have you come before us. I know being the lowly freshman, I am hard to see down here on the end.

A couple of thoughts. Looking at the stewardship assets, when you think about we are the steward of 28 percent of the Nation's land mass. Going to that as we talk about having a law and you all being able to do a bit more with your management and public/private partnerships, has there been any movement or do you have a process in place for evaluation of the stewardship assets which are not included in the consolidated financial statements? If you don't have a process in place, how long do you think that is going to take?

Ms. SPRINGER. That is a good question and I want to thank you for it because it does recognize that OMB does more than just deal with scoring. On the management side as part of the President's management agenda in anticipation of this legislation, we are asking agencies in this 2005 cycle to pick some very specific properties, including not only the ones reported in the financial balance statements but also the stewardship assets so that would cover things like the parks and other types of assets reported there, to actually pick a sampling of those and report on the values, the maintenance condition, what opportunities and things they could do. So we want some very concrete examples in anticipation of opening that once we have the authorities under the legislation.

Ms. BLACKBURN. Do you anticipate that being done through the rulemaking process or do you feel our bill should include a structure for that?

Ms. SPRINGER. We can take a first step in the A–11 guidance that we issue and we are working up that right now to come out for the beginning of the 2005 budget cycle. That will only go so far, it will be a first step, a good first step but it will be done with the expectation that we would have the broader legislation to really open it up.

Ms. BLACKBURN. Mr. Chairman, I would like for the record and for our process to recommend that we give some special thought to the stewardship assets as we look at the totality of the bill and then make provisions for addressing that.

One other thing, either you or Mr. Ungar, as we are looking at asset management and the President's management agenda, knowing this is kind of a weak link as we look at our entire budgeting process, developing a financial statement for the Federal Government, do you have a corporate model that you are working from with your asset management and the real property and also the stewardship assets or are you kind of taking the lessons learned and trying to develop a template we will work from?

Ms. SPRINGER. We will be moving from that latter view of lessons learned and kind of reactive to a more proactive formulation of

structure for how we would like some standard metrics, some standard reporting mechanisms. Clearly the financial statements, an important point to take note of, the FSAV which covers the financial reporting of the assets that are in the balance sheet has some very strict rules on reporting that we think covers comprehensively these types of transactions that are envisioned in the legislation.

The financial statements themselves are pretty well governed. Beyond that, we think there is a certain aspect of performance we need to capture more fully and we will be looking to provide direction on that.

Ms. BLACKBURN. Thank you.

Chairman TOM DAVIS. Mr. Duncan.

Mr. DUNCAN. Thank you.

This is something I have been very interested in because I spent 10 years on the Public Buildings Subcommittee and first of all, I want to say to my colleague, Mr. Turner, he is exactly right. I agree with everything he said in his statement. This business of moving to a suburban location in Jacksonville, oftentimes we have found it is just some high level official in that particular building who wants to get a new office or wants to get an office closer to home and they cook the figures so they can so in a convoluted way that some money is going to be saved.

If people look at these moves closely it would save much more money to stay in the building where they are. In fact, we have found also that some of these people complain about the buildings they are in when they are Federal buildings and they are buildings that were built in the 1960's and 1970's, not old buildings at all. We are working in a building that opened in 1800, the Capitol. It is just ridiculous as Governor Janklow said, what is going on here.

We dealt I guess most often with Federal courthouses and what we found was State governments were building beautiful Supreme Court buildings and courthouses for $125 and $150 a square foot and the Federal Government was building courthouses for $265 and $285 a square foot because nobody would say to the Federal judges you can't just have all the gold and high furnishings that you want. It has gotten totally out of hand. The National Security Administration building in Virginia cost $320 a square foot. Somebody has got to get on top of this thing and say no.

I noticed in the report that the Department of Defense has so many unneeded buildings that it is costing $3-$4 billion a year the GAO report says just to maintain those buildings. Mr. Ungar, are they making any progress, really doing a lot to get rid of these buildings or sell these properties?

Mr. UNGAR. Some progress is being made. Each agency is grappling with this problem but unfortunately the problem is so big that without a much more aggressive effort, probably what is going to happen is the properties that become unneeded or underutilized or in serious disrepair are going to overtake the ones getting off that list.

Without a more intensive effort, the problem will probably get worse.

Mr. DUNCAN. In the report on the Mendell Rivers building in South Carolina, that looks like a fairly new building, it doesn't look

like an old building but apparently they moved out because of the asbestos. The report says there is very little Federal demand there and yet they are trying to get the city to take the building and build them a 27,000 square food building. It is crazy as Mr. Schrock just said. Why don't they just go in and remove the asbestos because if it is good enough to turn over to the city, it should be good enough for the Federal Government to clean up and keep working in there.

Mr. UNGAR. That is a very good question. There are a couple issues. One, the building was actually damaged by the hurricane. It could have been repaired conceptually but the asbestos really made it a big problem. There is a funding issue to get the money to repair it.

The reason our report said there wasn't strong demand was that at the time we looked at this property a couple of years ago, the Federal agencies that were there were moved out into leased space for the most part and they had leases of several years. It wasn't that the property was not a good candidate, it was at that particular time, those agencies couldn't move back in right away.

On the other hand, it is a very desirable location and I don't know that the exchange is really the optimal solution but right now it is probably the only solution that GSA has unless it has additional authority.

Mr. DUNCAN. Let me say this. These prices are getting ridiculous and somebody, the GSA, the OMB, needs to start putting more pressure to hold down the cost of these Federal buildings and not just go so lavishly overboard.

I will tell you one quick story. The Secret Service a few years ago, we found they were paying $7,723,000 for a 1.3 acre piece of property in downtown Washington for a new headquarters. We ran a computer search and found nine other parcels of property all costing between $10-$30 million that were within the parameters. We fussed about that.

The head of the Secret Service came to see me and four of their heads and said, will you stop fussing about this if we agree to knock $50 million off the price of the building. I said yes, because I thought at least we are saving $50 million.

Mr. SHAYS [presiding]. Would the gentleman suspend? We have an option of possibly clearing this panel, the red light is on. I haven't asked questions.

Mr. DUNCAN. I will stop, Mr. Chairman.

Mr. SHAYS. Finish your sentence if you want but I just need to move on here.

Mr. DUNCAN. All I was saying was they instantly agreed to knock off $50 million of the price of the building just because we raised some questions at a hearing. That shows you how much fluff and surplus is in these buildings and it is getting ridiculous. It is not fair to the taxpayers.

Mr. SHAYS. Mr. Souder.

Mr. SOUDER. I have two brief comments and I have two questions. One is that we have been hearing all morning about the basic problem of why the Federal Government is different than the private sector cash-flow annual budgeting or biannual budgeting which simply does not work when your cash-flow expenses are com-

ing that year and your income is a later year. We have all kinds of scoring problems and this whole thing of trying to separate assets from income and how we score that leads us to do really dumb things, en bloc, good things. We have to address some fundamental process questions of how we account income and assets because it leads to other short term decisions that aren't wise long term decisions. Anybody who has been in business can see this every time we deal with our annual statements.

I also want to resist the temptation to ask Mr. Bitz about why it takes so long to get the air conditioning in the spring. I am a constituent.

Mr. BITZ. I will look into that, sir.

Mr. SOUDER. No, I think it is a standard procedure.

It is a Charles Smith Co. operated building that I stay in when I am here in Washington.

I had a question for Mr. Catlett. In your testimony, you referred to the VA and how you have been able to do a number of things in local communities with flexibility. Do you involve the local communities in the enhanced use leasing projects and what is the review process you have in those local communities?

Mr. CATLETT. Yes, sir. There is a public hearing for each of these proposals we put forward to get comments both from the private sector as well as other government officials. There is a public hearing at the location for each of these projects.

Mr. SOUDER. That is well publicized and groups come in. Have you had the experience of people coming in and participating in that process?

Mr. CATLETT. Yes, sir, very much so.

Mr. SOUDER. Can you give an example of one where you saw such participation and how that might have affected the project?

Mr. CATLETT. The one that would come to mind now would be just north of Baltimore at a facility we call Fort Howard. We had a public hearing there about a month or 6 weeks ago in which about 40 participants came in. Again, we don't need the property, we are looking for a use there for a long term care type of community, not just a facility for institutional care. Obviously the neighborhood is very much interested, the developers were interested, so we had over 45 participants there representing what we feel was the most interest in that community or affected by that proposal.

Mr. SOUDER. General Williams, I also had a question for you. Can you give us some examples of how revenues from sales and leases of Department of State property have been used to improve other Department of State properties?

General WILLIAMS. I would be happy to. We are able to take the proceeds and identify, we have a long range strategic plan that is in place with the next most urgent project, so once the proceeds are identified and we make the necessary reporting to our oversight apparatus, then we are able to proceed ahead very expeditiously with projects. For example, we have built embassies out of proceeds of sales.

Mr. SOUDER. Does it have to stay in the same region?

General WILLIAMS. No, it does not.

Mr. SOUDER. Could you give an example of an embassy where that might have occurred?

General WILLIAMS. Regarding the use of proceeds of sale, for example, we are in the process now of gathering the funds for our Berlin Embassy. The proceeds of sales came from other regions other than Europe, they go to a central pot. The next most urgent requirement we have in State is if the option is to fund from the proceeds of sales, it comes out. So Berlin would be an example. Uganda and Angola would be other examples.

Mr. SOUDER. Thank you very much.

Mr. SHAYS. I thank the gentleman.

Let me say I do have questions but time is running out and I don't want you to have to wait for us to get back. I think most has been covered. I do take a little bit of pride in the oversight of our committee with VA and State. I think you all have tried to move forward and use the instruments you have available to be a bit more efficient here.

I do appreciate the testimony of all our witnesses. Is there anything we need to put on the record that you might have thought about last night that you wanted to make sure was part of the record before we adjourn this hearing?

Thank you all for your participation. This is a noble cause and I think we are going to see action and don't underestimate the power of our chairman to get this through even the Senate.

With that, before adjourning, I will announce we have a committee business meeting that will begin promptly at 1:30 p.m.

The record will remain for 2 weeks on this hearing for anyone who wants to submit information.

Thank you all for participating and this hearing is adjourned.

[Whereupon, at 11:36 a.m., the committee was adjourned, to reconvene at the call of the Chair.]

[Additional information submitted for the hearing record follows:]

National Aeronautics and
Space Administration

Hold for Release Until

June 5, 2003

Committee on Government Reform

House of Representatives

Statement for the Record by:
Eugene Hubbard, PE
Director of Facilities Engineering
Office of Management Systems

108th Congress

HOLD FOR RELEASE
UNTIL
JUNE 5, 2003

Statement for the Record
of
Eugene Hubbard, PE
Director of Facilities Engineering
Headquarters Office of Management Systems
National Aeronautics and Space Administration

Submitted to the

Committee on Government Reform
United States House of Representatives

Mr. Chairman and Members of the Committee, thank you for the opportunity to submit a statement for the record concerning Enhanced-Use Leasing (EUL) at NASA.

As Director of Facilities Engineering at NASA, I am responsible for providing leadership, a wide range of enabling and analysis tools, and insight for NASA's real property. My goals are to ensure NASA has the facilities available to support the Agency's mission, and to ensure that those facilities are safe, secure, and environmentally sound, are of the right type and size, and are affordable. My office is charged with helping NASA move beyond "brick and mortar" facility solutions by seeking out alternatives to ownership and new construction, and seeking out innovative funding mechanisms.

NASA owns more than 5,000 facilities with 42 million square feet and a current replacement value of more than $20 billion. NASA Centers occupy more than 200,000 acres on strategically important and environmentally sensitive Federal land.

When I came to NASA Headquarters about 2 years ago, I visited each of NASA's 10 Centers located around the country. During these visits I noticed a number of the facilities and land were underutilized. I was familiar with the EUL authority at the Department of Veterans Affairs and the Department of Defense, and realized that EUL could be an important tool at NASA to increase the Agency's flexibility in efficiently managing underutilized property, give the Centers incentive to out-lease underutilized space, and provide funds for real property maintenance and repair.

NASA has authority under the Space Act to enter into partnership arrangements with universities and other organizations to develop NASA property for such things as

research parks. In return, NASA conducts research done in partnership with the users of the research parks at a lower cost. However, NASA currently can only retain cash or services equal to NASA's costs to maintain the lease—any revenue above that goes to the General Treasury.

Third party leasing costs NASA Centers in both manpower and funds to administer the leases, and NASA is unable to take advantage of potential revenue from leasing out underutilized property. Determining the costs that qualify for reimbursement from administering a lease can be difficult. NASA also is limited in other lease reimbursement schemes such as accepting in-kind (services, construction, preferential space) lease payments. Thus there is little to no incentive for a NASA Center to consolidate and lease-out underutilized real property.

Request for EUL Authority:

In conjunction with the FY 2003 budget request, NASA submitted to Congress a draft authorization bill that included a provision for EUL authority. This authority would enhance NASA's current authority by, primarily, adding the capability to get full fair market value for any lease to a private or public entity in cash or in services-in-kind, and to retain the cash revenue to further maintain and revitalize NASA infrastructure. The proposed authority was based on existing authorities in the Veterans Administration (38 U.S.C. 8161, et seq.) and the Department of Defense.

This broad NASA EUL authority would:

- allow the Center involved to obtain services-in-kind for full consideration of the lease value;
- allow NASA and the Center to retain all cash revenue from a lease, to be used for further investment into maintaining or improving NASA's facilities;
- allow for the potential transfer of the property to the lessee should NASA designate the property as excess during the term of the lease; and,
- attract more third party interest in leasing NASA property and in participating in public-private ventures with NASA Centers.

While an authorization bill for NASA was not enacted last Congress, limited EUL authority was incorporated as part of our FY 2003 appropriations. The FY 2003 Omnibus Appropriations Act (P.L.108-7) authorizes NASA to conduct a limited demonstration program of EUL, at no more than two NASA Centers. The limited authority mandates that any cash revenue received through the EUL project remain at the Center in which the EUL is implemented, and specifically limits any lease-back arrangements through EUL.

Implementation of Limited EUL Authority at NASA:

In May 2003, NASA Headquarters issued a call to the NASA Centers requesting proposals to be considered as one of the EUL demonstration sites as authorized by P.L. 108-7. We plan to select the demonstration Centers by the end of July 2003. The demonstration sites will be chosen primarily on the basis of potential value to NASA, the Center, and its community of any proposed EUL agreements, as well as the readiness of the Center to implement EUL projects. For the demonstration Centers, all EUL agreements will be reviewed and approved by NASA Headquarters.

Examples of Potential EUL at NASA:

NASA has several proposed initiatives that could benefit from enhanced-use leasing. For example, proposed research parks at Ames Research Center and Kennedy Space Center could utilize enhanced-use leasing authority to allow those Centers to lease out spaces or land-use agreements and use the revenue for facility maintenance and repair. Goddard Space Flight Research Center has proposed construction of a new Space Science Center and relocation of several institutional functions that could be executed faster and cheaper under enhanced-use leasing legislation. The establishment of new or expanded visitor and educational centers on NASA property could be candidates for enhanced-use leases.

EUL authority also may be used to more efficiently bring NASA contractors into space owned by NASA. This has the potential to result in both cost savings to the contracts as contractors may have reduced lease costs, as well as provide some revenue or services-in-kind for Center infrastructure. NASA currently has over 3 million square feet of under-utilized facilities that may be candidates for out-leasing using enhanced-use leasing authority.

Tools beyond EUL:

NASA maintains an excellent inventory of its real property. The NASA Real Property Inventory and the Facility Utilization system maintain current facilities information that is reported annually to the General Services Administration. NASA also tracks facility condition, and repair needs. However, NASA currently does not have a complete picture of its facilities utilization Agency-wide. Consequently, NASA is preparing a Real Property Strategic Plan (RPSP). As part of this Plan, NASA, with the assistance of an independent national real estate services firm, is analyzing its existing underutilized facilities and land to leverage its value through potential leasing out to third parties or other innovative initiatives, and may also identify future facility consolidations and closures. NASA anticipates the RPSP will be complete in September 2003. Decisions resulting from the RPSP will be reflected in subsequent NASA budget requests.

In addition to the RPSP, NASA is taking steps to improve its management of all capital assets through the planned Integrated Asset Management (IAM) system, a part of

NASA's Integrated Financial Management Plan. While IAM is at least two years away from complete implementation, NASA is updating its current inventory to show facility utilization by Center and Program.

Summary:

The General Accounting Office (GAO) has designated federal real property as "high-risk" (see GAO report GAO-03-122, "High-Risk Series, Federal Real Property" dated January 2003). In its report, GAO states that "Many of the (real property) assets are no longer effectively aligned with, or responsive to, agencies' changing missions…" and "problems have been exacerbated by competing stakeholder interests in real property decisions; various legal and budget-related disincentives to businesslike outcomes; the need for better capital planning among agencies; and the lack of a strategic, government-wide focus on real property issues."

NASA recognized these issues well before the publication of the GAO report, and has been taking steps to address them for the Agency's real property. Securing limited EUL authority in FY 2003 to increase our businesslike management of real property and address our under-utilized real property in a strategic manner is one of those steps NASA has undertaken. NASA will move out expeditiously to demonstrate the value of EUL through its current demonstration project authority.

Once obtained, NASA-wide EUL authority will be a valuable tool that will help NASA manage its facilities and land in a more business-like manner, and allow NASA to leverage the value of its under-utilized real property.

Thank you for this opportunity to describe EUL at NASA.